

MOSSEL BAY MUNICIPALITY

A photograph of two sea urchins resting on a grey concrete surface. The background is a blurred view of a beach with sand and rocks. A decorative wavy line in blue, orange, and green separates the image from the text below.

2018 / 19 ANNUAL FINANCIAL STATEMENTS



Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June, 2019

General Information

Legal form

Category B Local Authority

Legislation

The most important legislation governing Mossel Bay Municipality in terms of financial operations are:
Constitution of the Republic of South Africa, 1996 and regulations;
Municipal Finance Management Act, (MFMA) 2003 (Act No. 56 of 2003) and regulations issued in terms of the Act;
Annual Division of Revenue Act, (DORA) 2012 (Act No. 5 of 2012);
Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);
Intergovernmental Relations Framework Act, 2005 (Act No. 13 of 2005);
Municipal Structures Act, 1998 (Act No. 117 of 1998) and regulations issued in terms of the Act;
Municipal Systems Act, 2000 (Act. No. 32 of 2000) and regulations issued in terms of the Act;
Municipal Property Rates Act, 2004 (Act No. 6 of 2004) and the regulations issued in terms of the Act;
Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and regulations issued in terms of the Act;
Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and regulations issued in terms of the Act; and
Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004)

This list is however not exhausted.

Principal activities

The major principal activities that Mossel Bay Municipality render within its jurisdiction area include:
The provision and maintenance of Amenities, such as ablution, recreational, hall facilities; Building control services; Cemeteries; Coastal management and protection; Deforestation; Disaster management; Electricity supply services; Environmental Pollution control and Management; Fires services and prevention; Library services; Law enforcement services, including vehicle and driver registration and traffic services; Park development and maintenance; Creation and maintenance of Parking areas; Refuse Removal services; Social and Economical development; Spatial planning; Street and Storm water services; Street cleaning and Street lighting; Creation, operating and maintaining of Sport facilities; Tourism promotion; Waste water treatment services and Water supply services.

Area of Jurisdiction

Boggomsbaai; Brandwacht; Buysplaas; Danabaai; Friemersheim; Glentana; Great Brak River; Hartenbos; Herbertsdale; KwaNonqaba; Little Brak River; Mossel Bay; Rheeboek; Ruiterbos; Sonskynvallei; Tergniet; and Vleesbaai

Demarcation code

WC043

Mossel Bay Municipality

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General Information

Mayoral committee:

Executive Mayor

Alderman H J Levendal

Councillors

Councillor D Kotzé (Deputy Executive Mayor and Chairperson of Corporate Services & Governance Committee)

Councillor J C Bayman (Chairperson of Planning & Integrated Services Committee)

Councillor N Booisen (Chairperson of Community Services Committee)

Councillor M de Klerk (Chairperson of Finance Committee)

Councillor A Dellemijn (Chairperson of Technical Services Committee)

Councillor V Fortuin (Chairperson of Socio & Economic Development and Tourism Committee)

Speaker

Alderman P Terblanche

Ward Councillors

1 Clr P Lichaba (ANC)

2 Clr N Mbolompo (ANC)

3 Clr W Fipaza (ANC)

4 Clr A Janse van Rensburg (DA)

5 Clr A Dellemijn (DA)

6 Clr M Furness (DA)

7 Clr B Groenewald (DA)

8 Clr D Kotzé (DA)

9 Clr E Meyer (DA)

10 Ald P Terblanche (DA)

11 Clr M de Klerk (DA)

12 Clr W Buda (ANC)

13 Clr R H Ruiters (DA)

14 Clr J C Bayman (DA)

Proportional Representative Councillors

Clr E Baron (VF+)

Clr N Bobelo (ANC)

Clr N Booisen (DA)

Clr J Bruinders (ANC)

Clr V Fortuin (DA)

Clr J Gouws (ACDP)

Clr D Kamfer (ICOSA)

Clr M Kannemeyer (DA)

Ald H Levendal (DA)

Clr S Mbandezi (ANC)

Clr T Mvumvu (DA)

Clr L Rauch (DA)

Clr J Siyoko (DA)

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General Information

Chief Finance Officer (CFO)	D Asmal CA (S.A.)
Accounting Officer	Adv T Giliomee
Registered office	101 Marsh Street Mossel Bay 6506
Postal address	P O Box 25 Mossel Bay 6500
Bankers	Nedbank
Auditors	Auditor-General of South Africa
Telephone	(044) 606-5000
E-mail	admin@mosselbay.gov.za
Website	http://www.mosselbay.gov.za

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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Abbreviations:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
FMSG	Financial Management Support Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LGSETA	Local Government Sector Education Training Authority
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
RSEP / VPUU	Regional Socio-Economic Programme and Violence Prevention through Urban Upgrading Programme
SALGA	South African Local Government Association
SEIF	Shared Economic Infrastructure Facility Grant
WIP	Work-in-progress

Mossel Bay Municipality

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 19 to 144, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August, 2019 and were signed on its behalf by:



Adv T Giliomee
Accounting Officer

Mossel Bay
31 August, 2019

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Chief Financial Officer's Report

1. INTRODUCTION

It gives me great pleasure to present the financial position of Mossel Bay Municipality at 30 June 2019 and the results of its operations and cash flows for the year then ended.

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP).

2. KEY FINANCIAL INDICATORS

The following are some of the key financial indicators, comparing the 2019 financial year's performance of the Municipality to the 2018 comparative figures:

Ratio Description	2019	2018
Revenue Management		
Level of reliance on Government grants	15.4 %	16.7 %
Actual income vs Budgeted Income	(1.0)%	0.1 %
Expenditure Management		
Personnel costs to total expenditure	30.8 %	30.0 %
Actual expenditure vs Budgeted expenditure*	(5.5)%	(7.0)%
Interest paid as a percentage of total expenditure	0.7 %	1.3 %
Repairs and Maintenance / PPE (carry amount)	4.7 %	4.4 %
Repairs and Maintenance / Total expenditure	10.1 %	10.1 %
Asset Management		
Actual versus Budgeted	(18.8)%	(9.9)%
Stockholding period (DAYS)	24 days	30 days
Debt Management		
Creditor payment period (DAYS)	51 days	37 days
Debtors collection period (DAYS)	47 days	41 days
Liquidity		
Current ratio	2.60 : 1	2.70 : 1
Acid Test ratio	2.40 : 1	2.50 : 1
Turnover of accounts receivable	10.0 : 1	11.2 : 1
Cash to interest	0.63 : 1	1.63 : 1
Debt to cash	1.00 : 1	1.00 : 1
Cash to Income	0.07 : 1	0.14 : 1
Total Liabilities / Total Assets	0.14 : 1	0.14 : 1

*The total variance between budgeted and actual amounts is provided as a percentage variance

2.1 Borrowing, funding and reserves policy

The Borrowing, Funds and Reserves policy of Council, makes the measurement of the following ratios compulsory:

Finance costs to total expenditure

The approved policy by Council determines that the interest paid to total expenditure may not exceed 5%. The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Finance cost to total expenditure	0.7 %	1.3 %
Total Finance cost	6,785,045	11,060,147
Total operating expenditure	970,279,345	880,711,178

Interest paid to total expenditure is well within the norm of 5%.

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Chief Financial Officer's Report

Total long term debt to total operating revenue

The approved policy by Council determines that the total long term debt to total operating revenue (excluding conditional grants and transfers) must not exceed 35%. The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Total long term debt to total operating revenue (excluding conditional grants and transfers)	3.5 %	4.1 %
Total Long-term debt	30,830,781	33,887,371
Total Operating Revenue (excluding conditional grants and transfers)	891,725,193	817,696,851

This percentage of long term debt to operating revenue is well within the approved policy of Council of 35%.

Cash generation from operating activities

The approved policy by Council determines that the cash generation from operating activities must at least cover the annual loan repayments once. The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Coverage of Annual loan repayments by cash generated from operating activities (Times)	68	54
Cash generated from operating activities	198,104,334	152,215,184
Annual loan repayments	2,893,606	2,812,388

The Municipality does not have a high reliance on loans, thus the ratio is favourable. The coverage of cash generated from operating activities to the annual loan repayment is well above the norm of 1 time.

Percentage of annual loan repayment to total operating expenditure

The approved policy by Council determines that the percentage of total annual loan repayment (Capital and Interest) to total operating expenditure must not be more than 10%. The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Percentage of annual loan repayment to total expenditure	1.0 %	1.6 %
Annual loan repayments (Interest & capital)	9,678,651	13,872,535
Total Operating expenditure	970,279,345	880,711,178

The Municipality does not have a high reliance on loans and thus the amount relating to repayments of loans are low. The percentage of annual loan repayment to total expenditure is well within the norm of 10%.

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Chief Financial Officer's Report

2.2 Liquidity policy

The liquidity policy makes the measurement of the following ratios compulsory:

Cash/Cost Coverage Ratio

The approved policy by Council determines that the Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants) must be calculated as ((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets) and that a coverage of 1-3 times is acceptable.

	2019	2018
Cash / Cost Coverage ratio (Times)	6.0	5.9
Cash and cash equivalents	440,952,602	389,476,032
Monthly Fixed Operational Expenditure	73,282,117	66,042,835
Cash and cash equivalents		
Petty cash and bank balances	1,104,928	9,345,964
Unspent conditional grants and receipts	(23,134,492)	(36,772,905)
Short-term deposits	5,015,719	5,003,562
Short term investments	457,966,447	411,899,411
	440,952,602	389,476,032
Monthly Fixed Operational Expenses		
Total average monthly expenditure for the year	80,856,612	73,392,598
Less:		
Depreciation & Amortisation	(6,357,607)	(5,797,441)
Provision for Bad Debts	(1,216,888)	(1,454,470)
Impairment and loss on disposal of assets	-	(97,852)
	73,282,117	66,042,835

The cash/cost coverage ratio is above the norm of 1-3 times as per liquidity policy and decreased from the previous year mainly due to the fact that the average monthly cost increased in proportion.

Current ratio

The purpose of this ratio is to measure the municipality's ability to meet its short term commitments.

The approved policy by Council guides that the current ratio should be between 1,5:1 and 2:1. The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
	2.6	2.7
Current assets	625,921,967	578,400,187
Current liabilities	243,336,800	211,701,215

The municipality operates above the norm set by Council. The ratio has slightly declined since the end of the previous year

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Chief Financial Officer's Report

2.3 Other ratio's of importance

a) Debtors collection period in days

This ratio reflects the collection period. The debtor days refers to the average number of days required for the municipality to receive payment from its customers for bills/invoices issued to them for services. The ratio is also a good indication of the effectiveness of credit control procedures within the municipality. If the ratio is above the norm, it indicates that the municipality is exposed to significant cash flow risk. This is also an indication that the municipality is experiencing challenges in the collection of outstanding amounts due to it. In addition, this indicates that a significant amount of potential cash is tied up in consumer debtors and the municipality must improve revenue and cash flow management.

The norm is 30 days. The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Debtors collection period (days)	46.8	41.4
Consumer debtors * 365	35,754,477,043	29,584,368,272
Rates revenue + Services revenue + Debtors income	763,443,923	714,755,849

The municipality operates outside the norm. The collection period in days has slightly declined measured against the result of the previous financial year.

b) Level of reliance on government grants

The ratio measures the extent to which the municipality's expenditure is funded through government grants and subsidies.

No norm is proposed at this time by National Treasury. It must be mentioned that National Treasury does promote a healthy balance of funding sources.

The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Level of reliance on government grants	15.4 %	16.7 %
Government grants and subsidies	161,870,111	164,076,833
Total revenue	1,053,595,304	981,773,684

The results indicates that the municipality is not dependent on grant funding to run its normal operations.

c) Implementation of the capital program

This ratio measures the extent to which budgeted capital expenditure has been spent during the financial year under review. Further, this ratio measures the municipality's ability to implement capital projects and monitor the risks associated with non-implementation. The ratio also assesses whether the municipality has effective controls in place to ensure that expenditure is incurred in accordance with an approved budget. Any variance above 5% indicates discrepancies in planning and budgeting which should be investigated and corrective measures implemented. Under-spending is also an indicate that the municipality might be experiencing possible cash flow difficulties to implement projects. Ideally, under-spending should be the result of improved efficiencies and not as a result of non-implementation of programs and/or projects. Overspending may also indicate inaccurate budgeting or poor financial management control.

The norm range between a 0% and 5% variance.

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The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Actual versus Budgeted Capital Expenditure	(18.8)%	(9.9)%
Actual capital expenditure - Budgeted capital expenditure	(38,634,686)	(15,158,107)
Budgeted Capital Expenditure	205,748,046	152,994,533

The municipality is functioning outside the norm. The main reasons for underspending on capital expenditure are due to housing project progress delays caused by the Sonskynvallei Project: Re-invention of tenders delayed the project. Informal Settlement Project: Tenders came in excess of the available quantum.

d) Implementation: Operational Revenue

This ratio measures the extent of actual operating revenue (excluding Capital Grant Revenue) received in relation to budgeted operating revenue during the financial year, under review. A ratio outside the norm indicates either a challenge in capacity to implement, ineffective billing and credit control, weakness in compilation of budgets or issues of financial controls and management of the municipality.

The norm range between a 0% and 5% variance.

The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Actual revenue vs Budgeted revenue	(1.0)%	0.1 %
Actual revenue - Budgeted revenue	(10,575,469)	1,191,544
Budgeted revenue	1,062,948,361	980,582,133

The municipality is functioning within the norm.

e) Implementation: Operational Expenditure

This ratio measures the extent to which budgeted operating expenditure has been spent during the financial year, under review. The ratio also assesses whether the municipality has effective controls in place to ensure that expenditure is incurred in accordance with an approved budget. Any variance outside the norm either indicate a challenge in capacity to implement, issues of financial controls and management and / or poor budgeting.

The norm range between a 0% and 5% variance.

The table below provides the measurement of the current year against the results of the previous year.

	2019	2018
Actual operating expenditure vs Budgeted operating expenditure	(5.5)%	(7.0)%
Actual expenditure - Budgeted expenditure	(56,273,822)	(65,342,243)
Budgeted expenditure	1,022,348,638	939,462,132

The municipality is functioning slightly outside the norm. The main reason for under-spending on the operating expenditure budget are the slow progress on expenditure on top structures.

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Chief Financial Officer's Report

3. LIQUIDITY POSITION OF THE MUNICIPALITY

There are two main liquidity ratios that can be used to analyse the liquidity position of the municipality, namely the Current and Acid Test ratios. There are various other ratios that can be utilised to assess the municipality's liquidity position.

The calculations of these ratios is as follows:

Ratio Description	Formula	2019	2018
Current ratio	Current assets	625,921,967	578,400,187
	Current liabilities	243,336,800 2.6	211,701,215 2.7
Acid Test Ratio	Current assets - Inventory	583,399,144	529,319,868
	Current liabilities	243,336,800 2.4	211,701,215 2.5
Turnover of accounts receivable	Revenue (credit)	975,525,800	907,356,068
	Accounts receivable	97,957,471 10.0	81,053,064 11.2
Debt to cash	Total liabilities	484,125,788	421,450,476
	Cash balance at the end of the period	464,087,094 1.0	426,248,937 1.0

The above ratios show that the municipality is in a liquid position, with current assets of double the current liabilities. The ratio for the year under review slightly declined compared to the previous year. The municipality generates 10.0 times more revenue than what the outstanding accounts are.

The following table shows the history of the current year ratio for the municipality

	2014	2015	2016	2017	2018	2019
Current ratio	2.4	2.4	2.7	2.5	2.7	2.6

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4. OPERATING RESULTS

Summary of results

Details of the operating results per segmental classification are included in the supplementary information while operational results per category, together with an explanation of significant variances of more than 10 per cent from the final budget, are included in the Statement of Comparison of Budget and Actual amounts.

These amounts are based on the total position of the municipality (including non-cash transactions):

Heading	Actual 2019	Actual 2018	Variance	Adjusted budget 2019	Variance
Operating surplus / (deficit)	2,664,724,894	2,561,309,333	4.0 %	-	-
Operating income for the year	1,053,595,304	981,773,684	7.3 %	1,062,948,361	(0.9)%
Appropriations for the year	(71,378,712)	2,353,068	-	-	-
	3,646,941,486	3,545,436,085	2.9 %	1,062,948,361	

Expenditure	Actual 2019	Actual 2018	Variance	Adjusted budget 2019	Variance
Operating expenditure for the year	970,279,345	880,711,178	10.2 %	1,034,059,803	(6.2)%
Closing surplus / (deficit)	2,676,662,141	2,664,724,907	0.4 %	-	-
	3,646,941,486	3,545,436,085	2.9 %	1,034,059,803	

The accumulated surplus at 30 June 2019 amounted to R2,677 million. The accumulated surplus of R2,665 million at 30 June 2018 was restated with previous year corrections. Refer to note 46 for more detail.

The operating income increased by 7.2% to R1053.6 million from the previous financial year's income of R981.8 million. The operating expenditure increased by 10.2% to R970.3 million.

The municipality's financial statements ended on a surplus of R83.3 million for the year.

Operating revenue and expenditure

The following table indicates the municipality's major revenue sources for the year under review compared to the prior year:

Service area	2019	2018
Service charges	60.7 %	61.3 %
Rental of facilities and equipment	0.5 %	0.5 %
Agency services - Provincial Traffic	0.6 %	0.6 %
Interest received - outstanding debtors	0.2 %	0.2 %
Interest received - external investments	4.1 %	3.9 %
Gain on disposal of assets and liabilities	0.1 %	- %
Other income	3.2 %	3.6 %
Property rates	11.6 %	11.3 %
Licences and Permits	0.1 %	0.1 %
Government grants & subsidies received	15.4 %	16.7 %
Public contributions and donations	1.9 %	0.3 %
Fines, Penalties and Forfeits	1.5 %	1.4 %
	100 %	100 %

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Chief Financial Officer's Report

The table below indicates the municipality's major types of expenditure for the year compared to the previous year:

Operating expenditure as a percentage of total expenditure	2019	2018
Employee related costs	30.8 %	30.0 %
Remuneration of councillors	1.2 %	1.2 %
Depreciation and amortisation	7.9 %	7.9 %
Impairment loss/ Reversal of impairments	(0.01)%	0.01 %
Debt Impairment / Bad debts written off	1.5 %	2.0 %
Finance costs	0.7 %	1.3 %
Bulk purchases	30.1 %	30.4 %
Contracted services	11.9 %	11.1 %
Transfers and subsidies paid	0.6 %	0.5 %
Loss on disposal of assets and liabilities	- %	0.1 %
Inventories losses/write-downs	0.4 %	0.6 %
Inventory consumed	9.3 %	8.7 %
General Expenses	5.5 %	6.2 %
	100 %	100 %

5. CAPITAL EXPENDITURE AND FINANCE

The capital expenditure for the year as stated in the financial statements amounted to R167,113,360 and is broken down as follows:

Service area	2019		2018	
Community services / facilities	12,657,090	7.6 %	12,171,626	8.8 %
Electricity	27,708,647	16.6 %	25,522,455	18.5 %
Housing	5,684,685	3.4 %	3,850,745	2.8 %
Refuse	10,073,348	6.0 %	4,520,894	3.3 %
Sanitation	34,714,566	20.8 %	14,328,231	10.4 %
Streets and Storm water	43,731,793	26.2 %	38,631,451	28.1 %
Water	18,338,440	11.0 %	29,800,126	21.6 %
Other	14,204,791	8.5 %	8,846,096	6.4 %
	167,113,360	100 %	137,671,624	100 %

The capital expenditure was financed as follows:

Sources of finance	2019		2018	
Capital Replacement Reserve	84,972,280	50.8 %	95,324,117	69.2 %
Grants and Subsidies	40,834,118	24.4 %	33,260,776	24.2 %
Public Contributions	22,334,612	13.4 %	3,489,651	2.5 %
External loans	18,972,350	11.4 %	5,597,080	4.1 %
	167,113,360	100 %	137,671,624	100 %

Property, plant and equipment is funded to a large extent from the Capital Replacement Reserve.

6. FINANCIAL SUSTAINABILITY

Financial sustainability refers to financial accounts which reflect sufficient revenue and adequate corporate stability in order to fund and deliver on service delivery and performance targets. Following are a few graphs on various financial ratios that show the past 7 years' information, the current year information and 3 budget years' information.

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	Liquidity	Liquidity	Activity	Solvency	Cash Flow	Cash Flow
	Current ratio	Debtors payment period (days)	Inventory turnover ratio	Total assets to liabilities	Current liabilities coverage	Capital expenditure coverage
2010	2.28	45	13.00	9.15	0.18	0.15
2011	1.70	35	15.00	7.70	1.50	1.08
2012	2.29	30	10.00	5.73	0.60	0.67
2013	2.27	24	9.00	6.31	0.98	1.09
2014	2.35	26	26.00	7.53	0.98	1.30
2015	2.39	51	20.00	7.36	1.05	1.60
2016	2.66	12	13.00	7.63	0.99	1.22
2017	2.50	20	18.00	7.45	0.96	1.41
2018	2.70	41	30.00	7.65	0.72	1.11
2019	2.60	47	24.00	6.96	0.81	1.19
2020	2.40	17	20.00	6.21	0.90	0.64
(budget)						
2021	2.50	17	18.00	5.97	0.87	1.13
(budget)						
2022	2.40	18	17.00	5.55	0.82	0.93
(budget)						
	Debt ratio	Income & Expenditure Trends	Income & Expenditure Trends	Income & Expenditure Trends	Income & Expenditure Trends	
	Debt to cash	Government Grants as % of Revenue	Employee related cost as % of expenditure	Repairs & maintenance as % of expenditure	Debt impairment cost as % of expenditure	
2010	1.15	18.00	34.40	6.60	2.80	
2011	1.40	25.70	27.40	4.90	3.20	
2012	1.72	14.60	26.20	6.20	2.90	
2013	1.70	16.50	30.60	6.00	2.40	
2014	1.30	15.00	30.10	5.40	4.50	
2015	1.19	15.80	29.20	5.40	4.80	
2016	1.12	15.60	28.90	6.50	3.50	
2017	1.00	15.50	26.69	9.50	3.00	
2018	1.00	16.70	30.00	10.12	2.00	
2019	1.00	15.40	30.80	10.08	1.50	
2020 (budget)	1.41	19.42	28.69	9.51	2.63	
2021 (budget)	1.22	18.26	28.55	9.42	2.60	
2022 (budget)	1.32	20.11	27.80	9.12	2.52	

7. CAPITAL REPLACEMENT RESERVE

The Capital Replacement Reserve balance as at 30 June 2019 amounted to R145,942,083 (R138,849,300 as at 30 June 2018).

The Capital Replacement Reserve is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability thereof, are made annually to the reserve.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital program.

Refer to the Statement of Changes in Net Assets for more detail.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Chief Financial Officer's Report

8. EXTERNAL LOANS, INVESTMENTS AND CASH

On 30 June 2019 the external loans amounted to R30,830,781 (R33,842,799 on 30 June 2018). The municipality has taken up and repaid loans to the net effect of R(2,893,606) during the year.

The municipality's cashbook showed a positive balance of R1,081,468 (R9,326,904 on 30 June 2018) and Petty Cash to the amount of R23,460 (R19,060 on 30 June 2018) on 30 June 2019. The external investments shorter than 3 months amounted to R5,015,719 against the R5,003,562 of the previous year. The Short term investments longer than 3 months but shorter than 12 months amounted to R457,966,447 against the R411,899,411 of the previous year. The municipality also has a long term investment that amounts to additional contribution of R12m per year.

More particulars regarding external loans and investments appear in Notes 15, 9, 10 and 16 of the Annual Financial Statements, as well as in the Supplementary Information.

9. PROVISIONS

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Provisions amounted to R87,287,383 as at 30 June 2019 (R78,605,215 as at 30 June 2018) and are made up as follows:

	2019	2018
Rehabilitation of Landfill Sites	87,287,383	78,605,215

Refer to Note 19 of the Annual Financial Statements for more detail.

10. LIQUIDITY REQUIREMENTS

The table below shows the allocation of the investment portfolio toward the funding of various obligations:

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Chief Financial Officer's Report

Liquidity Requirement Calculation (as stipulated in paragraph 4)	2019	2018
All earmarked and / or conditional grants received but not yet utilised	23,134,492	36,772,905
Value of the provisions held in cash for the rehabilitation of landfill sites to the extent that these funds are required within the following 5 years	87,287,383	78,605,215
Value of legally entrenched short term rights and benefits of employees related to medical benefits and retirement benefits	30,586,617	27,856,681
Unspent Loan Funds	-	-
Funds held for agency services not yet performed	-	-
Reserve funds reflected in Statement of Financial Position that are assumed to be held in cash	145,942,083	138,849,299
Capital redemption and interest payments on external loans not reflected as part of normal operating expenditure	6,741,482	6,311,100
1 months operational expenditure excluding non-cash items	73,282,117	66,042,835
Consumer deposits	27,286,555	25,624,225
Other Deposits and Other Advance Payments		
- Retentions	10,762,668	10,401,799
- Payments received in advance	31,302,707	28,905,228
- Other deposits	4,770,675	4,232,337
Non-current deposit: Pavilion	299,151	286,755
Reserve funds for Landfill site provision	15,000,000	10,000,000
Reserve funds for Self-insurance Reserve	64,285,928	19,000,000
Total liquidity requirements	520,681,858	452,888,379

Actual available liquidity held (reference paragraph 4)

Bank balances at e.g.		
- ABSA, FNB, Standard Bank, Nedbank, Investec, Money Market		
Bank balances sub total	1,104,928	9,345,964
95% of all other term deposits with banks	4,764,933	4,753,384
95% of all Short term investments with banks	435,068,125	391,304,440
95% of all Long term investments with banks	45,600,000	34,200,000
Consumer debtors (current)	38,439,685	34,744,178
Other reserves held in cash not reflected in bank balances mentioned above for e.g.		
- Unspent conditional grants	-	-
- Payments received for agency functions not yet performed	-	-
- The cash value of reserves held	-	-
- Cash deposits held as part of loan covenant ceded	-	-
- Undrawn bank overdraft facility of committed liquidity lines available	-	-
Total liquidity available	524,977,671	474,347,966

Liquidity surplus / (shortfall)	4,295,813	21,459,587
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11. EMPLOYEE BENEFITS

These liabilities are in order to enable the municipality to be in a position to fulfil its known legal obligations with regards to employee benefits when they become due and payable.

The employee benefits liability amounted to R159,182,799 as at 30 June 2019 (R130,572,681 as at 30 June 2018) and is made up as follows:

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Chief Financial Officer's Report

	2019	2018
Post-Employment Health Care Benefits	117,155,647	90,629,000
Ex-Gratia Gratuities	1,469,411	1,475,000
Long Service Awards	17,150,533	16,572,000
Employee overtime / standby allowance accrual	1,373,691	1,090,860
Employee bonus accrual	6,924,683	5,157,635
Staff leave accrual	14,166,854	14,691,330
Performance bonus accrual	941,980	956,856
	159,182,799	130,572,681

Refer to Note 18 of the Annual Financial Statements for more detail.

12. CURRENT LIABILITIES

Current liabilities are those liabilities of the municipality due and payable in the short term (less than 12 months). No indication is found that the municipality would be unable to meet its obligations. Current liabilities amounted to R243,336,792 as at 30 June 2019 (R211,701,215 as at 30 June 2018) and are made up as follows:

		2019	2018
Operating lease accrual	Note 5	1,853,952	1,845,156
Other financial liabilities	Note 16	3,487,949	3,236,143
Finance lease obligation	Note 17	5,933	12,944
Employee benefit obligation	Note 18	30,586,617	27,856,681
Provisions	Note 19	2,736,550	2,515,876
Unspent conditional grants and receipts	Note 20	23,134,492	36,772,905
Consumer deposits	Note 21	27,286,555	25,624,225
Payables from exchange transactions	Note 22	154,244,744	113,837,285
		243,336,792	211,701,215

13. CURRENT ASSETS

Current assets amounted to R625,921,967 as at 30 June 2019 (R578,400,187 as at 30 June 2018) and is made up as follows:

		2019	2018
Inventories	Note 3	42,522,823	49,080,320
Current portion of Long term receivables	Note 4	466,594	477,942
Operating lease asset	Note 5	176,552	196,907
Receivables from exchange transactions	Note 6	87,293,411	72,199,905
Receivables from non-exchange transactions	Note 7	21,662,617	19,299,709
VAT	Note 8	9,712,876	10,896,467
Short term Investments	Note 9	457,966,447	411,899,411
Cash and cash equivalents	Note 10	6,120,647	14,349,526
		625,921,967	578,400,187

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Chief Financial Officer's Report

14. TRADE AND OTHER RECEIVABLES FROM EXCHANGE AND NON-EXCHANGE TRANSACTIONS

The net balance of trade and other receivables from exchange transactions is indicated below:

	2019	2018	Variance
Electricity	41,790,060	34,684,946	20.48 %
Water	17,078,505	20,828,944	(18.01)%
Sewerage	6,751,120	4,374,088	54.34 %
Refuse	5,541,250	3,432,836	61.42 %
Land sales	230	754	(69.50)%
Housing selling schemes	14,716	11,625	26.59 %
Housing rental	12,613	6,769	86.33 %
Other (merchandising, jobbing, contracts and service charges)	16,104,917	8,859,943	81.77 %
	87,293,411	72,199,905	20.91 %

The net balance of receivables from non-exchange transactions is indicated below:

	2019	2018	Variance
Fines	4,158,505	5,618,868	(26.0)%
Consumer debtors - Rates	10,664,061	8,853,158	20.5 %
Payments made in advance	5,231,434	3,371,364	55.2 %
Other	1,608,617	1,456,317	10.5 %
	21,662,617	19,299,707	12.2 %

15. EXPRESSIONS OF APPRECIATION

I am grateful to the Executor Mayor, Executor Deputy Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Directors for their unwavering support and guidance extended during the financial year. I also extend a special word of thanks and appreciation to all staff who assisted with the preparation of the year end information, specifically the staff of the Budget and Treasury Office. Without their focussed efforts, contributions and assistance, the preparation of these financial statements would not have been possible.



CHIEF FINANCIAL OFFICER

31 August, 2019

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Statement of Financial Position as at 30 June, 2019

	Notes	2019 R	2018 R
ASSETS			
CURRENT ASSETS			
Inventories	3	42,522,823	49,080,320
Long term receivables	4	466,594	477,942
Operating lease asset	5	176,552	196,907
Receivables from exchange transactions	6	87,293,411	72,199,905
Receivables from non-exchange transactions	7	21,662,617	19,299,709
VAT receivable	8	9,712,876	10,896,467
Short term investments	9	457,966,447	411,899,411
Cash and cash equivalents	10	6,120,647	14,349,526
		625,921,967	578,400,187
NON-CURRENT ASSETS			
Property, plant and equipment	11	2,097,695,237	2,008,565,672
Investment property	12	594,219,616	596,885,431
Intangible assets	13	467,376	593,708
Heritage assets	14	4,225,599	4,225,599
Long term receivables	4	486,155	354,079
Investments	15	48,000,000	36,000,000
		2,745,093,983	2,646,624,489
TOTAL ASSETS		3,371,015,950	3,225,024,676
LIABILITIES			
CURRENT LIABILITIES			
Other financial liabilities	16	3,487,949	3,236,143
Finance lease obligation	17	5,933	12,944
Employee benefit obligation	18	30,586,617	27,856,681
Provisions	19	2,736,550	2,515,876
Operating lease liability	5	1,853,952	1,845,156
Unspent conditional grants and receipts	20	23,134,492	36,772,905
Consumer deposits	21	27,286,555	25,624,225
Payables from exchange transactions	22	154,244,752	113,837,285
		243,336,800	211,701,215
NON-CURRENT LIABILITIES			
Other financial liabilities	16	27,342,832	30,651,228
Finance lease obligation	17	-	5,933
Employee benefit obligation	18	128,596,182	102,716,000
Provisions	19	84,550,833	76,089,339
Non-current deposits	23	299,151	286,755
		240,788,998	209,749,255
TOTAL LIABILITIES		484,125,798	421,450,470
NET ASSETS			
Self-insurance reserve	24	64,285,928	-
Capital replacement reserve	25	145,942,083	138,849,299
Accumulated surplus / (deficit)		2,676,662,141	2,664,724,907
TOTAL NET ASSETS		2,886,890,152	2,803,574,206

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Statement of Financial Performance

	Notes	2019 R	2018 R
REVENUE			
Revenue from exchange transactions			
Service charges	27	639,133,912	602,010,355
Rental of facilities and equipment	28	5,654,886	5,078,997
Agency services - Provincial Traffic		6,781,280	6,052,555
Interest received - outstanding debtors		1,784,302	1,722,677
Interest received - external investments	29	42,700,038	38,602,829
Gain on disposal of assets and liabilities		1,222,412	-
Other income	30	34,147,049	35,814,781
Total revenue from exchange transactions		731,423,879	689,282,194
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	31	122,525,709	110,972,997
Licences and Permits		1,332,247	1,300,402
Transfer revenue			
Government grants & subsidies received	32	161,870,111	164,076,833
Public contributions and donations	33	20,527,987	2,481,870
Fines, Penalties and Forfeits	34	15,915,371	13,659,388
Total revenue from non-exchange transactions		322,171,425	292,491,490
TOTAL REVENUE		1,053,595,304	981,773,684
EXPENDITURE			
Employee related costs	35	299,014,416	264,536,461
Remuneration of councillors	36	11,483,338	10,941,298
Depreciation and amortisation	37	76,291,280	69,569,290
Impairment loss/ Reversal of impairments		(70,058)	76,167
Debt Impairment / Bad debts written off	38	14,602,653	17,453,642
Finance costs	39	6,785,045	11,060,147
Bulk purchases	40	292,284,876	267,744,119
Contracted services	41	115,412,738	97,386,323
Transfers and subsidies paid	42	6,085,011	4,282,136
Loss on disposal of assets and liabilities		-	1,174,220
Inventories losses/write-downs		4,204,529	5,417,077
Inventory consumed	43	90,668,403	76,814,274
General Expenses	44	53,517,114	54,256,024
TOTAL EXPENDITURE		970,279,345	880,711,178
		-	-
SURPLUS / (DEFICIT) FOR THE YEAR		83,315,959	101,062,506

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Changes in Net Assets

	Self-insurance reserve R	Capital replacement reserve R	Housing development fund R	Total reserves R	Accumulated surplus / (deficit) R	Total net assets R
Opening balance as previously reported	-	141,173,950	28,417	141,202,367	2,596,504,797	2,737,707,164
Adjustments						
Prior year adjustments	-	-	-	-	(35,195,464)	(35,195,464)
Balance at 1 July, 2017 as restated	-	141,173,950	28,417	141,202,367	2,561,309,333	2,702,511,700
Changes in net assets						
Surplus for the year	-	-	-	-	101,062,506	101,062,506
Transfer from Housing	-	-	(28,417)	(28,417)	28,417	-
- Contributions from operating account and other contributions	-	70,431,679	-	70,431,679	(70,431,679)	-
- External services contribution	-	6,793,014	-	6,793,014	(6,793,014)	-
- Land sales contribution	-	3,304,106	-	3,304,106	(3,304,106)	-
Less: Expenditure: Funding Capital Projects	-	(102,853,450)	-	(102,853,450)	102,853,450	-
Contribution to CRR	-	20,000,000	-	20,000,000	(20,000,000)	-
Total changes	-	(2,324,651)	(28,417)	(2,353,068)	103,415,574	101,062,506
Opening balance as previously reported	-	138,849,299	-	138,849,299	2,667,245,754	2,806,095,053
Adjustments						
Prior year adjustments	-	-	-	-	(2,520,860)	(2,520,860)
Balance at 1 July, 2018 as restated*	-	138,849,299	-	138,849,299	2,664,724,894	2,803,574,193
Changes in net assets						
Surplus for the year	-	-	-	-	83,315,959	83,315,959
Transfer to Self-insurance reserve	64,285,928	-	-	64,285,928	(64,285,928)	-
- Contributions from operating account and other contributions	-	77,978,064	-	77,978,064	(77,978,064)	-
- External services contribution	-	7,003,888	-	7,003,888	(7,003,888)	-
- Land sales contribution	-	4,520,319	-	4,520,319	(4,520,319)	-
Less: Expenditure: Funding Capital Projects	-	(82,409,487)	-	(82,409,487)	82,409,487	-
Total changes	64,285,928	7,092,784	-	71,378,712	11,937,247	83,315,959
Balance at 30 June, 2019	64,285,928	145,942,083	-	210,228,011	2,676,662,141	2,886,890,152
Notes	24	25	26			

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Cash Flow Statement

	Notes	2019 R	2018 R
Cash flows from operating activities			
Receipts			
Grants		148,231,695	162,886,442
Interest income		40,013,036	37,131,218
Ratepayers and Service charges		754,101,147	735,183,393
Other		61,952,074	61,664,365
		<u>1,004,297,952</u>	<u>996,865,417</u>
Payments			
Employee costs		(298,412,684)	(274,097,321)
Suppliers		(453,905,632)	(473,925,927)
Transfers and grants		(6,085,011)	(4,282,136)
Other payments		(47,790,291)	(92,344,849)
		<u>(806,193,618)</u>	<u>(844,650,233)</u>
Total receipts		1,004,297,952	996,865,417
Total payments		(806,193,618)	(844,650,233)
Net cash flows from operating activities	45	<u>198,104,334</u>	<u>152,215,184</u>
Cash flows from investing activities			
Purchase of Capital assets	11	(147,785,424)	(136,253,311)
Proceeds from sale of property, plant and equipment	11	534,675	441,726
Proceeds from sale of investment property	12	3,555,676	2,418,826
(Increase) / Decrease in Long-term Receivables		42,255	269,653
(Increase) / Decrease in Non-current investments		(12,000,000)	(12,000,000)
(Increase) / Decrease in Short term investments		(46,067,036)	(46,090,183)
Net cash flows from investing activities		<u>(201,719,853)</u>	<u>(191,213,289)</u>
Cash flows from financing activities			
Proceeds / (Repayment) of other financial liabilities		(2,893,606)	2,787,612
Consumer deposits		1,662,330	2,383,554
Proceeds / (Repayment) of Finance lease liabilities		(12,944)	(225,676)
Finance costs		(3,369,141)	(3,131,086)
Net cash flows from financing activities		<u>(4,613,360)</u>	<u>1,814,404</u>
Net increase / (decrease) in cash and cash equivalents		<u>(8,228,879)</u>	<u>(37,183,701)</u>
Cash and cash equivalents at the beginning of the year		14,349,526	51,533,227
Cash and cash equivalents at the end of the year	10	<u>6,120,647</u>	<u>14,349,526</u>

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
STATEMENT OF FINANCIAL PERFORMANCE						
REVENUE						
Revenue from exchange transactions						
Rental of facilities and equipment	5,399,954	469,110	5,869,064	5,654,886	(214,178)	
Interest received - outstanding debtors	1,878,998	(223,498)	1,655,500	1,784,302	128,802	
Agency services - Provincial Traffic	6,000,000	(361,370)	5,638,630	6,781,280	1,142,650	Conservative budgeting in respect of motor vehicle registration income.
Other income	25,081,087	6,040,072	31,121,159	34,147,049	3,025,890	The main reasons are unforeseen additional revenue from external service contributions, fire brigade fees and insurance claims.
Interest received - external investments	37,500,000	(4,332,415)	33,167,585	42,700,038	9,532,453	Certain investments' interest was omitted from the approved adjustment budget.
Total revenue from exchange transactions	718,713,705	(2,171,381)	716,542,324	730,201,467	13,659,143	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	117,328,893	2,814,707	120,143,600	122,525,709	2,382,109	Implementation of supplementary valuation rol.
Licenses and Permits	1,132,624	36,666	1,169,290	1,332,247	162,957	
Transfer revenue						
Government grants and subsidies received	171,829,574	35,997,138	207,826,712	161,870,111	(45,956,601)	Mainly as a result of underspending of Human Settlement Development Grant and Provincial Financial Support Grant.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
Public contributions and donations	-	1,051,783	1,051,783	20,527,987	19,476,204	The revenue from donated roads and parking areas were omitted in the adjustment budget.
Fines, Penalties and Forfeits	4,939,240	11,275,412	16,214,652	15,915,371	(299,281)	
Total revenue from non-exchange transactions	295,230,331	51,175,706	346,406,037	322,171,425	(24,234,612)	
TOTAL REVENUE	1,013,944,036	49,004,325	1,062,948,361	1,052,372,892	(10,575,469)	
EXPENDITURE						
Employee related costs	(291,147,241)	(9,539,897)	(300,687,138)	(299,014,416)	1,672,722	Saving is due to positions that became vacant after adjustment budget.
Remuneration of councillors	(11,927,802)	444,462	(11,483,340)	(11,483,338)	2	
Depreciation and amortisation	(78,303,716)	599,280	(77,704,436)	(76,291,280)	1,413,156	Less projects finalised and unbundled than anticipated.
Impairment loss/ Reversal of impairments	-	-	-	70,058	70,058	
Finance costs	(4,992,476)	(4,865,175)	(9,857,651)	(6,785,045)	3,072,606	Unwinding of interest relating to landfill sites were less than anticipated.
Debt Impairment / Bad debts written off	(18,721,500)	(15,148,700)	(33,870,200)	(14,602,653)	19,267,547	Improved collection rate on traffic fines.
Bulk purchases	(285,789,123)	1,955,342	(283,833,781)	(292,284,876)	(8,451,095)	Increased consumption omitted on the adjustment budget although revenue was adjusted.
Contracted Services	(145,910,164)	(20,404,463)	(166,314,627)	(115,412,738)	50,901,889	Mainly as a result of underspending of Human Settlement Development Grant and Provincial Financial Support Grant.
Transfers and Subsidies paid	(5,815,722)	(496,728)	(6,312,450)	(6,085,011)	227,439	
Inventory consumed	(81,813,226)	9,078,605	(72,734,621)	(90,668,403)	(17,933,782)	Housing stock issued were omitted from the adjustment budget.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
General Expenses	(57,431,944)	(2,118,450)	(59,550,394)	(53,517,114)	6,033,280	The main contributors were the computer licence fees and external computer services. The external computer services cost saving is caused by the temporary pausing of the functioning of the mSCOA working committees.
TOTAL EXPENDITURE	(981,852,914)	(40,495,724)	(1,022,348,638)	(966,074,816)	56,273,822	
Operating surplus	32,091,122	8,508,601	40,599,723	86,298,076	45,698,353	
Inventories losses/write-downs	(100,000)	70,571	(29,429)	(4,204,529)	(4,175,100)	The line item for water inventory losses were omitted from the Budget and included in Inventory Consumed for water.
	(574,913)	(11,136,252)	(11,711,165)	(2,982,117)	8,729,048	
Surplus before taxation	31,516,209	(2,627,651)	28,888,558	83,315,959	54,427,401	
Taxation	-	-	-	-	-	
SURPLUS / (DEFICIT) FOR THE YEAR	31,516,209	(2,627,651)	28,888,558	83,315,959	54,427,401	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
STATEMENT OF FINANCIAL POSITION						
ASSETS						
Current Assets						
Inventories	21,546,642	27,611,726	49,158,368	42,522,823	(6,635,545)	More Housing stock were issued than what was budgeted.
Long term receivables	-	253,471	253,471	466,595	213,124	
Operating lease asset	-	194,471	194,471	176,552	(17,919)	
Receivables from non-exchange transactions	71,797,487	(48,204,567)	23,592,920	21,662,616	(1,930,304)	Improved collections.
VAT receivable	-	-	-	9,712,876	9,712,876	Budgeted for VAT payable, actual outcome resulted in VAT receivable.
Receivables from exchange transactions	37,217,047	26,213,227	63,430,274	87,293,411	23,863,137	Main contributors are increase in accrued electricity and lower than expected debt impairments.
Short term investments	347,146,276	22,853,724	370,000,000	457,966,447	87,966,447	Spending on budget very low, resulting in additional cash and generate more cash than expected.
Cash and cash equivalents	15,323,790	18,685,210	34,009,000	6,120,647	(27,888,353)	Borrowing from DBSA was not received at close of business.
	493,031,242	47,607,262	540,638,504	625,921,967	85,283,463	
Non-Current Assets						
Investment property	622,435,635	(27,103,702)	595,331,933	594,219,616	(1,112,317)	Correction of error as result of reclassification of De Bakke/Santos.
Property, plant and equipment	2,141,409,803	17,295,305	2,158,705,108	2,097,695,237	(61,009,871)	Mainly due to underspending of capital budget.
Intangible assets	378,918	125,243	504,161	467,376	(36,785)	
Heritage assets	4,225,599	-	4,225,599	4,225,599	-	
Long term receivables	1,388,785	(1,104,053)	284,732	486,155	201,423	
Investments	48,000,000	-	48,000,000	48,000,000	-	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
TOTAL ASSETS	2,817,838,740	(10,787,207)	2,807,051,533	2,745,093,983	(61,957,550)	
	3,310,869,982	36,820,055	3,347,690,037	3,371,015,950	23,325,913	
LIABILITIES						
Current Liabilities						
Other financial liabilities	9,849,790	(396,097)	9,453,693	3,487,949	(5,965,744)	Borrowing from DBSA was not received at close of business.
Finance lease obligation	-	-	-	5,933	5,933	
Operating lease liability	1,598,662	-	1,598,662	1,853,952	255,290	
Payables from exchange transactions	113,431,689	1,543,970	114,975,659	154,244,752	39,269,093	Accounts were received very late.
VAT payable	3,100,999	-	3,100,999	-	(3,100,999)	Budgeted for VAT payable, actual outcome resulted in VAT receivable, disclosed as a current asset.
Consumer deposits	28,157,755	(1,252,319)	26,905,436	27,286,555	381,119	
Employee benefit obligation	28,785,189	6,194,000	34,979,189	30,586,617	(4,392,572)	Change as a result of the actuarial valuation.
Unspent conditional grants and receipts	-	-	-	23,134,492	23,134,492	Underspending of Human Settlement Development Grant and Provincial Financial Support Grant.
Provisions	5,684,326	(605,773)	5,078,553	2,736,550	(2,342,003)	Mainly as a result of the change in expected cashflows for landfill site rehabilitation.
	190,608,410	5,483,781	196,092,191	243,336,800	47,244,609	
Non-Current Liabilities						
Other financial liabilities	50,835,010	5,171,372	56,006,382	27,342,832	(28,663,550)	Borrowing from DBSA was not received at close of business.
Finance lease obligation	280,240	(280,240)	-	-	-	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
Employee benefit obligation	86,434,000	24,416,800	110,850,800	128,596,182	17,745,382	Actuarial loss as per actuarial report.
Provisions	112,501,700	(48,496,687)	64,005,013	84,550,833	20,545,820	Omitted to take out alien vegetation provision in the adjustment budget.
Non-current deposits	274,541	-	274,541	299,151	24,610	
	250,325,491	(19,188,755)	231,136,736	240,788,998	9,652,262	
TOTAL LIABILITIES	440,933,901	(13,704,974)	427,228,927	484,125,798	56,896,871	
NET ASSETS						
Self-insurance reserve	-	-	-	64,285,928	64,285,928	Additional cash as at year end of 2018 and 2019 were contributed to the self-insurance reserve in line with Council's policy.
Capital replacement reserve	107,587,531	26,192,440	133,779,971	145,942,083	12,162,112	Underspending on Capital projects, funding will be rollover to 2019/2020 budget.
Housing development fund	28,417	(28,417)	-	-	-	
Accumulated surplus / (deficit)	2,762,320,133	24,361,006	2,786,681,139	2,676,662,141	(110,018,998)	Net effect of all comments raised in statement of financial performance.
TOTAL NET ASSETS	2,869,936,081	50,525,029	2,920,461,110	2,886,890,152	(33,570,958)	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
CASH FLOW STATEMENT						
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts						
Grants received	171,829,574	30,859,590	202,689,164	148,231,695	(54,457,470)	As a result of underspending of Human Settlement Development Grant.
Interest income	39,758,030	(7,204,438)	32,553,592	40,013,036	7,459,444	Certain investments interest was omitted from the approved adjustment budget.
Ratepayers and Service charges	766,235,120	(6,384,798)	759,850,322	754,101,147	(5,749,175)	Experience a slight drop in the collection rate of less than 1%.
Other revenue	14,992,564	44,700,696	59,693,260	61,952,074	2,258,813	The main reasons are unforeseen additional revenue from external service contributions, fire brigade fees and insurance claims.
	992,815,288	61,971,050	1,054,786,338	1,004,297,952	(50,488,388)	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
Payments						
Employee costs	(289,305,127)	7,373,889	(281,931,238)	(298,412,684)	(16,481,446)	Saving is due to positions that became vacant after adjustment budget.
Suppliers	(483,044,731)	(48,343,563)	(531,388,294)	(453,905,632)	77,482,662	Mainly as a result of underspending of Human Settlement Development Grant, Provincial Financial Support Grant and other contracted services.
Transfers and Grants	(5,350,122)	(762,328)	(6,112,450)	(6,085,011)	27,439	
Other payments	(55,328,983)	(5,086,264)	(60,415,247)	(47,790,291)	12,624,956	The main contributor is savings on operational expenditure, such as computer licensing and other smaller items.
	(833,028,963)	(46,818,266)	(879,847,229)	(806,193,618)	73,653,611	
NET CASH FLOWS FROM / (USED) OPERATING ACTIVITIES	159,786,325	15,152,784	174,939,109	198,104,334	23,165,223	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of Capital assets	(181,754,934)	(23,993,114)	(205,748,048)	(147,785,424)	57,962,624	Underspending of capital budget as result of delays in tender processes, mostly due to local content audit finding.
Proceeds from sale of property, plant and equipment	7,299,228	(2,599,228)	4,700,000	534,675	(4,165,325)	Split between Property, Plant and Equipment and Investment Property.
Proceeds from sale of investment property	-	-	-	3,555,676	3,555,676	Split between Property, Plant and Equipment and Investment Property.
(Increase) / Decrease in Long-term Receivables	100,000	-	100,000	42,255	(57,745)	
(Increase) / Decrease in Non-current Investments	(12,000,000)	-	(12,000,000)	(12,000,000)	-	
(Increase) / Decrease in Short-term Investments	-	-	-	(46,067,036)	(46,067,036)	Spending on budget very low, resulting in additional cash and generate more cash than expected.
NET CASH FLOWS FROM / (USED) INVESTING ACTIVITIES	(186,355,706)	(26,592,342)	(212,948,048)	(201,719,853)	11,228,194	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
	R	R	R	R	R	
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds / (Repayment) of Other financial liabilities	34,036,000	(14,700,000)	19,336,000	(2,893,606)	(22,229,605)	Borrowing from DBSA was not received at close of business.
Increase / (Decrease) in Consumer deposits	1,087,670	193,541	1,281,211	1,662,330	381,119	
Proceeds / (Repayment) of Finance lease liabilities	-	-	-	(12,944)	(12,943)	
Finance costs	(4,992,476)	144,267	(4,848,209)	(3,369,141)	1,479,069	Incorrectly budget for repayment of borrowings for the budget period 2018/2019.
NET CASH FLOWS FROM / (USED) FINANCING ACTIVITIES	30,131,194	(14,362,192)	15,769,002	(4,613,360)	(20,382,360)	
Net increase/(decrease) in cash and cash equivalents	3,561,813	(25,801,750)	(22,239,937)	(8,228,879)	14,011,057	
Cash and cash equivalents at the beginning of the year	358,908,254	67,340,683	426,248,937	14,349,526	(411,899,411)	Due to change in accounting policy, refer to Note 45.
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	362,470,067	41,538,933	404,009,000	6,120,647	(397,888,354)	

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

C1. Entities are required to apply the Standards of GRAP where the Minister has determined the effective date. The Minister has determined the effective date for the Standards of GRAP outlined below (paragraph .09 of Directive 5).

Reference	Topic
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfers of Functions Between Entities Under Common Control
GRAP 106	Transfers of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

C2. Directives issued and effective that entities are required to apply (paragraph .14 of Directive 5):

Reference	Topic
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 2	Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Further Education and Training Colleges and Constitutional Institutions
Directive 3	Transitional Provisions for High Capacity Municipalities
Directive 4	Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities
Directive 5	Determining the GRAP Reporting Framework
Directive 6	Transitional Provisions for Revenue Collected by the South African Revenue Service (SARS)
Directive 7	The Application of Deemed Cost
Directive 8	Transitional Provisions for Parliament and the Provincial Legislatures
Directive 9	The Application of the Standards of GRAP by Trading Entities
Directive 10	Application of the Standards of GRAP by Public Further Education and Training Colleges
Directive 11	Changes in the Measurement Bases Following the Initial Adoption of the Standards of GRAP
Directive 12	The Selection of an Appropriate Reporting Framework by Public Entities

C3. Interpretations of the Standards of GRAP approved that entities are required to apply (paragraph .10 of Directive 5):

Reference	Topic
IGRAP 1	Applying the Probability Test on Initial Recognition of Revenue
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3	Determining whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 11	Consolidations – Special Purpose Entities
IGRAP 12	Jointly Controlled Entities – Non-monetary Contributions by Venturers
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services
IGRAP 16	Intangible Assets – Website Costs

C4. Approved guideline of Standards of GRAP that entities are required to apply (paragraph .15 of Directive 5):

Reference	Topic
Guideline	Guideline on Accounting for Public Private Partnerships

C6. Standards of GRAP approved, but for which the Minister of Finance has not yet determined an effective date, Interpretations of the Standards of GRAP not yet effective, and guidelines that entities may consider in formulating an accounting policy (paragraph .12 of Directive 5):

Standards of GRAP that may be used in developing an accounting policy:

Reference	Topic
GRAP 32	Service Concession Arrangements: Grantor
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
IGRAP 17	Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
IGRAP 18	Recognition and Derecognition of Land
IGRAP 19	Liabilities to Pay Levies
Guideline	Accounting for Arrangements Undertaken in terms of the National Housing Programme

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

Standards of GRAP that an entity may use to disclose information in its financial statements:

Reference	Topic
GRAP 20	Related Party Disclosures

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All amounts are rounded to the nearest Rand

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Allowance for slow moving, damaged and obsolete stock

Allowance is made to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus note when found material.

Impairment testing

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their historical collection trend. This was performed individually across all debtors by discounting the future cashflows using the interest rate earned on the primary bank account.

The calculation in respect of the impairment of Traffic fines is based on the same principle as for other receivables except that it is not performed on an individual fine basis.

The municipality used the interest rate on primary bank account as the effective interest rate for impairment.

Provisions and Contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material. Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The cost of post-retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Additional information is disclosed in Note 18.

Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the initial expected useful lives. The cost of each component is calculated based on the cost price of each component.

Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements.

For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

The Municipality considers a project to be significantly delayed after a period of 12 months.

Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

The Municipality considers a project to be significantly delayed after a period of 12 months.

Revenue recognition

Accounting Policy on Revenue from Non-Exchange Transactions and Revenue from Exchange Transactions below describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed.

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.5 Biological assets that form part of an agricultural activity

A biological asset is a living animal or plant which is part of an agricultural activity and entails the management of the biological transformation and harvest of biological assets for either the sale; distribution at no charge or for a nominal charge; or conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge. Agricultural produce is the harvested product of the Municipality's biological assets.

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at each reporting period at their fair value less estimated costs to sell. The fair value of the biological asset is determined based on current market prices, growth and/or volume and estimated value movement in point-of-sale cost.

On derecognition of biological assets due sale or nominal charge, the proceeds as a result of the sale or nominal charge are recognised as revenue in the statement of financial performance for the period in which it arises, whilst the cost of sale (fair value less cost of sale) is recognised as an expenditure in the statement of financial performance.

1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Transfers are made to or from investment property only when there is a change in use.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Improved Property - land	Indefinite
Improved Property - buildings	8 - 100
Unimproved Property - land	Indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance.

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.6 Investment property (continued)

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 12).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 12).

1.7 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land is not depreciated as it is deemed to have an indefinite useful life.

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1.7 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life in years
<u>PPE Land</u>		
Land	Straight line	Indefinite
<u>Community assets</u>		
Community facilities	Straight line	7 - 100
Sport and recreation facilities	Straight line	5 - 100
<u>Other assets</u>		
Computer Equipment	Straight line	4 - 5
Furniture and Office Equipment	Straight line	8 - 50
Housing	Straight line	8 - 100
Machinery and Equipment	Straight line	5 - 30
Operational buildings	Straight line	5 - 100
Transport Assets	Straight line	7 - 30
<u>Infrastructure</u>		
Coastal infrastructure	Straight line	10 - 100
Roads infrastructure	Straight line	5 - 50
Electrical infrastructure	Straight line	2 - 100
Information and communications infrastructure	Straight line	2 - 100
Sanitation infrastructure	Straight line	5 - 100
Solid waste infrastructure	Straight line	8 - 100
Storm-water infrastructure	Straight line	5 - 60
Water supply infrastructure	Straight line	5 - 100
Zoo and Marine facilities	Straight line	5 - 100

The depreciable amount of an asset is allocated on a systematic basis over its initial useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed for indicators that the expected pattern of consumption of the future economic benefits or service potential embodied in the asset has changed. If detected then the useful life is reviewed. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality's expectations about the residual value of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

Mossel Bay Municipality

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Accounting Policies

1.7 Property, plant and equipment (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.8 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.9 Intangible assets

An intangible asset is an identifiable non-tangible asset without physical substance. Examples include computer software, licences and development costs.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project; and
- it is probable that the Municipality will receive future economic benefits or service potential.

Intangible assets are subsequently carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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1.9 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life in years
Computer Software	Straight line	4 - 10
Servitudes	Straight line	5 - 20

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.10 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held and preserved indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Depreciation and Impairment

Heritage assets are not depreciated, since their long economic life and high residual value means that any depreciation would be immaterial.

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

The useful lives of items of heritage assets have been assessed as follows:

Item	Useful life in years
Conservation areas	Indefinite
Historic Buildings	Indefinite
Monuments	Indefinite
Other heritage	Indefinite

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1.10 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value of the heritage asset and is recognised in the statement of Financial Performance.

1.11 Financial instruments

The Municipality has various types of financial instruments and these can be broadly categorised as either a financial asset or a financial liability.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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Accounting Policies

1.11 Financial instruments (continued)

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets as reflected on the face of the statement of financial position or in the notes thereto:

Class

Long-Term Receivables
Receivables from Exchange Transactions
Other Receivables from Non-Exchange Transactions
Short-term Investment Deposits
Cash and Cash Equivalents

The municipality has the following types of financial liabilities as reflected on the face of the statement of financial position or in the notes thereto:

Other Financial Liabilities
Payables from exchange transactions
Cash and Cash Equivalents
Finance lease obligations
Unspent Conditional Grants and Receipts

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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1.11 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Mossel Bay Municipality

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Accounting Policies

1.11 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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1.11 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of Financial Performance. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation / Offsetting of Financial Instruments

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.12 Cash and Cash equivalents and Investments

Cash and cash equivalents include cash on hand, call deposits and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions and are subject to an insignificant risk of change in value.

Investments is classified as either Non-Current Investments or Short-term Investments. Non-Current Investments is investments made for a period longer than 12 months, whilst those invested for a period of longer than 3 months but shorter than 12 months is classified as Short-term Investments. Recognition and classification of investments are made at inception of the investment. All other call deposits, 32 notice deposits or other forms investments not exceeding 3 months are classified as cash and cash equivalents.

Non-current Investment income is recognised on a time-proportion basis using the effective interest method.

1.13 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

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Accounting Policies

1.13 Statutory receivables (continued)

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in the Statement of Financial Performance.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in the Statement of Financial Performance.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

1.14 Value Added Tax

Current tax assets and liabilities

The Municipality is registered for VAT on the payment basis. Revenue, expenses and assets are recognised net of the amount of value added tax. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1.15 Unpaid Conditional Grants and Receipts

Unpaid conditional grants are assets in terms of the GRAP Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

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1.16 Payables from Exchange Transactions

Payables from exchange transactions are originally carried at fair value and subsequently are measured at amortised cost using the effective interest method.

1.17 Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts are reflected on the Statement of Financial Position as a current liability. They represent unspent government grants, subsidies and contributions from the public. This liability always has to be backed by cash.

The following provisions are set for the creation and utilisation of this liability:

- The cash which backs up the liability is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.
- Whenever an asset is purchased out of the unspent conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unspent Conditional Grant into the statement of financial performance as revenue.

1.18 Other Financial Liabilities (Borrowings)

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Municipality has the unconditional right to defer settlement of the liability for at least 12 months after the date of the Statement of Financial Position.

1.19 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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1.19 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.20 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

The weighted average method is used to allocate cost to inventory items.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage. Water inventory is measured at the reporting date by way of readings and the calculated volume in the distribution network. Apparent and real water losses is recognised in the period it occurs.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.21 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

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1.21 Construction contracts and receivables (continued)

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.22 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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1.22 Impairment of cash-generating assets (continued)

Cash-generating units

Cash-generating units are defined as end-services that generate, or is expected to generate, positive cash flows. All individual assets assigned to these units are viewed as cash-generating assets at initial recognition. The following end-services are classified as cash-generating units:

- Electricity services
- Water services
- Solid waste management services
- Waste water management services

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.22 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in the Statement of Financial Performance.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.23 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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1.23 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.23 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in the Statement of Financial Performance.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.24 Employee benefits

Employee benefits are all forms of consideration given by a entity in exchange for service rendered by employees.

All costs relating to employee benefits such as contributions, interest and / or actuarial gains or losses, is recognised in the statement of financial performance as employee related costs.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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1.24 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

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1.24 Employee benefits (continued)

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Mossel Bay Municipality

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1.24 Employee benefits (continued)

Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and is calculated based on the total remuneration package of the employee.

Accumulated leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonusses

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

Performance Bonusses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrues to Section 57 employees. The performance bonus provision is based on the employment contract stipulations as well as previous performance bonus payment trends.

Other post retirement obligations

The municipality provides post-retirement health care benefits and gratuities upon retirement to some retirees:

(a) Post-Retirement Medical obligations

The Municipality provides post-retirement healthcare benefits to its employees and retired employees of the Municipality, and to their registered dependants. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance. These obligations are valued annually by independent qualified actuaries.

(b) Long Service awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised.

Payments are offset against the liability, including notional interest, resulting from the valuation by the actuaries is charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

(c) Ex gratia Gratuities

Ex gratia gratuities are provided to employees that were not previously members of a pension fund. The Municipality's obligation under these plans is valued by independent qualified actuaries and the corresponding liability is raised.

Payments made by the Municipality are offset against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

Mossel Bay Municipality

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1.24 Employee benefits (continued)

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.25 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 58.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.26 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Mossel Bay Municipality

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1.26 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.27 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges relating to **electricity and water** are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced.

Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

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1.27 Revenue from exchange transactions (continued)

An estimation is made annually of the water and electricity consumptions not yet invoiced, for which an accrual is recognised as at year end.

Revenue from sale of electricity prepaid meter cards are recognised at the point of sale. At year-end the recognition is based on an estimate of the prepaid electricity consumed as at the reporting date. The consumption of pre-paid electricity is calculated by using a trend analysis and other historical data on electricity usage.

Service charges relating to refusal removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly.

Service charges from sewerage and sanitation for residential and business properties are levied annually based on a fixed tariff.

Rentals are recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

The income for agency services recognised is commission in terms of the agency agreement.

Finance income from the sale of housing by way of installment sales agreements or finance leases is recognised on a time proportionate basis.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in the Statement of Financial Performance, using the effective interest rate method.

Dividends or similar distributions are recognised, in the Statement of Financial Performance, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.28 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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1.28 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis. Rebates and discounts are offset against the related revenue, in terms of IGRAP 1, as there is no right to collect this revenue in terms of the municipal tariff policy and by-laws.

Grants, transfers and donations

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

A liability is recognised, to the extent that the criteria, conditions or obligations have not been met.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Mossel Bay Municipality

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Accounting Policies

1.28 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of impaired assets.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with the prescribed debt principle as enforced by law.

1.29 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.30 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which it is incurred.

1.31 Comparative information

Where necessary, comparative information have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification is disclosed.

Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.32 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote; and
- expenditure not in accordance with the purpose of a vote.

A vote is defined as a Directorate.

The municipality has the following Directorates:

- Community Services
- Corporate Services
- Financial Services
- Municipal Manager
- Planning & Integrated Services
- Technical & Electrical Services

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.33 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Mossel Bay Municipality

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Accounting Policies

1.34 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.35 Housing development fund

The Housing Development Fund was established in terms of Section 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998 and which requires that the Municipality maintains a separate housing operating account.

Loans from National and Provincial Government used to finance housing developments undertaken by the Municipality were extinguished on 1 April 1998 and transferred to the Housing Development Fund.

The Housing Act also requires in terms of Section 14(4)(d)(ii)(aa), read with, inter alia, Section 16(2) that the net proceeds of any rental, sale of property or alienation, financed previously from government housing funds, be paid into a separate operating account and be utilised by the Municipality for housing development subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

- The Housing Development Fund is cash backed and available funds are invested in accordance with the Municipality's investment policy,
- The proceeds in this fund are utilised for housing developments in accordance with the National Housing Policy and also for housing development projects approved by the MEC for Housing,
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets,
- Any interest earned on the investments of the fund is disclosed as interest earned in the statement of financial performance,
- Any surplus / (deficit) on the Housing Statement of Financial Performance must be transferred to the Housing Development Fund if funds are available and not already committed to approved existing Housing projects.

1.36 Internal reserves

Capital replacement reserve (CRR)

In order to finance capital assets from internal sources, amounts are transferred out of the accumulated surplus into the Capital Replacement Reserve (CRR) in terms of the funding and reserves policy adopted by the Municipality. The cash in the CRR can only be used to finance capital expenditure appropriated in an approved budget. The CRR is reduced and the accumulated surplus is credited by a corresponding amount when the amounts in the CRR are utilised.

Self insurance reserve

The municipality has a self-insurance reserve to set aside amounts to offset potential losses or claims that are not insured externally.

At the end of each financial year an amount (as determined by the Liquidity calculation prescribed in the municipality's Liquidity policy) may be transferred from accumulated surplus to self-insurance reserve. The Chief Financial Officer has the delegation to determine such amount to be transferred to the self-insurance reserve.

The balance of the self-insurance fund is invested in short-term cash investments.

1.37 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.37 Budget information (continued)

The approved budget covers the fiscal period from 01 July 2018 to 30 June 2019.

Material differences or variances are defined as any differences or variances above 10% with a value of more than R1 000 000. Explanations for material differences between the approved and final budget are included in the annual financial statements.

Explanations for material differences between the final budget amounts and actual amounts are included the Statement of comparison of budget and actual amounts.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The disclosure of comparative budget information is not required in terms of GRAP 24.

1.38 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.39 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Accounting Policies

1.39 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	1 April, 2018	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	1 April, 2018	Unlikely there will be a material impact

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 108: Statutory Receivables	1 April, 2019	Unlikely there will be a material impact

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	1 April, 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	1 April, 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	1 April, 2019	Not expected to impact results but may result in additional disclosure
• GRAP 20: Related parties	1 April, 2019	Not expected to impact results but may result in additional disclosure
• GRAP 32: Service Concession Arrangements: Grantor	1 April, 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	1 April, 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	1 April, 2019	Unlikely there will be a material impact

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
3. Inventories		
Consumables	14,238,338	13,053,840
Housing Topstructures	25,027,641	31,966,625
Unsold property held for resale	2,767,897	3,556,749
Water	488,947	503,106
	42,522,823	49,080,320

Inventory to the value of R4,204,529 (2018: R5,417,077) was written off during the financial year.

Housing stock inventory relates to various housing topstructure projects, including the Azizani/Zinyoka housing project, UISP and Louis Fourie Corridor, projects for which Mossel Bay Municipality is the appointed developer as well as housing emergency kits.

The only under construction Inventory is the project cost of housing topstructures.

Land relates to developed land that is held for resale by the municipality, mostly aimed at middle-income households.

Water inventory relates to purified water under the control of the municipality. The cost of sale per kiloliter decreased from R5.01 p/kl in 2018 to R4.78 p/kl in 2019 representing a decrease in cost of sale of 4.68%.

All inventory for the current year are carried at the lower of cost or the net realisable value.

None of the inventories were pledged as security for liabilities.

4. Long term receivables

At amortised cost

Land Sales Debtors	10,297	7,290
Bursary Obligations	224,747	189,631
Public Assistance Loans	-	5,909
Housing Selling Schemes	792,147	1,025,192
	1,027,191	1,228,022
Impairments	(74,442)	(396,001)
	952,749	832,021

Non-current assets

At amortised cost	486,155	354,079
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Current assets

At amortised cost	466,594	477,942
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Total

952,749	832,021
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Reconciliation of debt impairment of long-term receivables

Balance at the beginning of the year	396,001	284,371
Contribution to / (Reversal from) provision	(321,559)	111,630
Bad debts written off / recovered	-	-
	74,442	396,001

Outstanding Land Sales debtors and Housing selling scheme loans were summarised in scheme numbers. A payment % report was drawn in order to establish the payment percentage per type of debtor. This payment percentage was used to impair these long-term receivables.

No provision for debt impairment to be recognised for study and public assistance loans.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Notes to the Annual Financial Statements

	2019 R	2018 R
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4. Long term receivables (continued)

Land Sales: Loans were granted to qualified individuals by Council. These loans attract interest at market-related interest rates.

Public assistance loans: To facilitate the development of sporting facilities, loans were made to provide the necessary financial assistance. These loans attract interest at a rate of between 12% and 15% per annum. The last repayment was in September 2018.

Housing Selling Scheme Loans: Housing loans are granted to qualifying individuals in terms of the National Housing Policy. These loans attract interest at a rate determined by the National Minister of Housing.

5. Operating leases

The Municipality as lessor

Operating leases relate to Property owned by the Municipality with lease terms of between one to thirty years. The lessee does not have an option to purchase the property at the expiry of the lease period.

Non-cancellable Operating Lease assets recognised in the Statement of Financial Performance

Balance at the beginning of year	196,907	194,471
Movement for the year	(20,355)	2,436
	176,552	196,907

The following receipts have been recognised as an income in the Statement of Financial Performance

Rental income	4,976,896	4,468,064
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At the reporting date the Municipality had lease receipts receivable under non-cancellable operating leases for Investment Property, which fall due as follows:

Up to 1 year	3,286,524	3,969,165
1 to 5 years	9,017,444	9,858,827
More than 5 years	34,100,455	38,004,477
	46,404,423	51,832,469

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13.

The Municipality as lessee

Operating leases relate to buildings with lease terms of between one to ten years, with an option to extend for a further period. The Municipality does not have an option to purchase the leased asset at the expiry of the lease period.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
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	2019 R	2018 R
5. Operating leases (continued)		
Non-cancellable Operating Lease liabilities recognised in the Statement of Financial Performance		
Balance at the beginning of the year	1,845,156	1,673,415
Movement for the year	8,796	171,741
	1,853,952	1,845,156
The following payments have been recognised as an expenditure in the Statement of Financial Performance		
Lease rentals on operating lease - Other - Contingent amounts	2,848,648	2,593,725
At the reporting date the Municipality had outstanding commitments under non-cancellable operating leases for buildings, which fall due as follows:		
Up to 1 year	2,884,852	2,605,172
1 to 5 years	8,028,241	9,350,298
More than 5 years	1,519,742	2,650,954
	12,432,835	14,606,424
Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13.		
6. Receivables from exchange transactions		
Gross balances		
Electricity	43,539,276	36,458,234
Water	22,536,710	24,480,332
Sewerage	9,567,201	6,894,034
Refuse	6,294,681	3,876,935
Land sales	10,259	8,861
Housing selling schemes	1,132,396	1,116,666
Housing rental	160,808	145,653
Other (merchandising, jobbing, contracts and service charges)	19,097,343	11,457,896
	102,338,674	84,438,611
Less: Allowance for impairment		
Electricity	(1,749,216)	(1,773,288)
Water	(5,458,205)	(3,651,388)
Sewerage	(2,816,081)	(2,519,946)
Refuse	(753,431)	(444,099)
Land sales	(10,029)	(8,107)
Housing selling schemes	(1,117,680)	(1,105,041)
Housing rental	(148,195)	(138,884)
Other (merchandising, jobbing, contracts and service charges)	(2,992,426)	(2,597,953)
	(15,045,263)	(12,238,706)

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Annual Financial Statements for the year ended 30 June, 2019
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	2019 R	2018 R
6. Receivables from exchange transactions (continued)		
Net balance		
Electricity	41,790,060	34,684,946
Water	17,078,505	20,828,944
Sewerage	6,751,120	4,374,088
Refuse	5,541,250	3,432,836
Land sales	230	754
Housing selling schemes	14,716	11,625
Housing rental	12,613	6,769
Other (merchandising, jobbing, contracts and service charges)	16,104,917	8,859,943
	87,293,411	72,199,905

The tables below contain information about the ageing of receivables from exchange transactions for each service:

Electricity		
Current (0 -30 days)	40,995,074	33,300,940
31 - 60 days	423,820	978,463
61 - 90 days	247,555	247,545
91 - 120 days	160,374	160,791
121 - 365 days	477,221	271,979
> 365 days	1,235,232	1,498,516
Less: Impairment	(1,749,216)	(1,773,288)
	41,790,060	34,684,946

Water		
Current (0 -30 days)	14,683,277	17,388,385
31 - 60 days	810,026	1,247,937
61 - 90 days	601,209	535,230
91 - 120 days	532,596	890,284
121 - 365 days	2,325,555	756,793
> 365 days	3,584,047	3,661,703
Less: Impairment	(5,458,205)	(3,651,388)
	17,078,505	20,828,944

Sewerage		
Current (0 -30 days)	5,273,745	3,314,173
31 - 60 days	426,643	539,107
61 - 90 days	387,270	258,003
91 - 120 days	345,491	217,304
121 - 365 days	1,317,314	436,453
> 365 days	1,816,738	2,128,994
Less: Impairment	(2,816,081)	(2,519,946)
	6,751,120	4,374,088

Refuse		
Current (0 -30 days)	4,649,177	2,804,743
31 - 60 days	253,710	352,736
61 - 90 days	215,035	116,524
91 - 120 days	190,402	83,180
121 - 365 days	575,098	146,875
>365 days	411,259	372,877
Less: Impairment	(753,431)	(444,099)
	5,541,250	3,432,836

Service debtors receivables that are past due as at 30 June 2019 but not impaired is R5 559 662 (2018: R6 512 575).

Mossel Bay Municipality
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	2019 R	2018 R
6. Receivables from exchange transactions (continued)		
Land sales		
Current (0 -30 days)	523	418
31 - 60 days	146	314
61 - 90 days	145	141
91 - 120 days	150	142
121 - 365 days	912	413
>365 days	8,383	7,433
Less: Impairment	(10,029)	(8,107)
	230	754

Land Sales receivables that are past due as at 30 June 2019 but not impaired is Rnil (2018: R336).

Housing selling schemes		
Current (0 -30 days)	26,600	15,666
31 - 60 days	11,457	14,050
61 - 90 days	11,208	11,957
91 - 120 days	11,107	11,452
121 - 365 days	79,815	49,042
>365 days	992,209	1,014,499
Less: Impairment	(1,117,680)	(1,105,041)
	14,716	11,625

Housing Selling Schemes receivables that are past due as at 30 June 2019 but not impaired is Rnil (2018: Rnil).

Housing rental		
Current (0 -30 days)	7,217	4,518
31 - 60 days	2,320	3,173
61 - 90 days	2,216	2,379
91 - 120 days	2,202	1,835
121 - 365 days	21,451	15,489
>365 days	125,402	118,259
Less: Impairment	(148,195)	(138,884)
	12,613	6,769

Housing rentals receivables that are past due as at 30 June 2019 but not impaired is R5 398 (2018: R2 250).

Other (merchandising, jobbing, contracts and service charges)		
Current (0 -30 days)	13,772,474	6,731,514
31 - 60 days	200,918	185,392
61 - 90 days	138,441	129,956
91 - 120 days	119,451	101,648
121 - 365 days	2,340,762	625,683
>365 days	2,525,297	3,683,703
Less: Impairment	(2,992,426)	(2,597,953)
	16,104,917	8,859,943

Other receivables that are past due as at 30 June 2019 but not impaired is R2 332 443 (2018: R2 128 429).

Mossel Bay Municipality
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	2019 R	2018 R
6. Receivables from exchange transactions (continued)		
Summary of receivables by customer classification		
Residential	38,019,866	36,705,985
Industrial / Commercial	28,538,081	20,086,781
National / Commercial	5,663,787	4,351,647
Other (Churches)	15,071,677	11,055,492
	87,293,411	72,199,905
Reconciliation of allowance for impairment		
Balance at beginning of the year	(12,238,706)	(10,783,936)
Movement in allowance for impairment	(2,806,557)	(1,454,770)
	(15,045,263)	(12,238,706)
7. Receivables from non-exchange transactions		
Gross balance		
Rates	14,242,837	13,066,396
Traffic fines	33,541,410	41,287,839
Payments made in advance	5,231,434	3,371,364
Government grants and subsidies	128,834	128,834
Other	3,223,885	3,197,492
Recoverable expenditure	75,644	75,644
	56,444,044	61,127,569
Less: Allowance for impairment		
Rates	(3,578,776)	(4,213,238)
Traffic fines	(29,382,905)	(35,668,971)
Other	(1,819,746)	(1,945,651)
	(34,781,427)	(41,827,860)
Net balance		
Rates	10,664,061	8,853,158
Traffic fines	4,158,505	5,618,868
Payments made in advance	5,231,434	3,371,364
Government grants and subsidies	128,834	128,834
Other	1,404,139	1,251,841
Recoverable expenditure	75,644	75,644
	21,662,617	19,299,709

Other debtors are grouped together in financial assets with similar credit risk characteristics and collectively assessed for debt impairment. An individual assessment of debtors are done for Rates Debtors, Traffic Fines and Other Debtors.

Provision for debt impairment is made for the debtor created for funds outstanding from LGSETA, Rates Debtors and Traffic Fines.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
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	2019 R	2018 R
7. Receivables from non-exchange transactions (continued)		
Rates: Ageing		
Current (0 -30 days)	9,546,152	7,201,654
31 - 60 days	378,582	1,211,697
61 - 90 days	347,293	348,673
91 - 120 days	235,901	283,776
121 - 365 days	1,277,515	512,091
> 365 days	2,457,394	3,508,505
Less: Impairment	(3,578,776)	(4,213,238)
	10,664,061	8,853,158

Rates receivables that are past due as at 30 June 2019 but not impaired is R1 117 908 (2018: R1 651 504).

Summary of rates by customer classification

Residential	7,992,451	6,797,005
Industrial / Commercial	2,265,698	1,918,968
National / Provincial government	298,695	90,067
Other (Churches)	107,217	47,118
	10,664,061	8,853,158

Reconciliation of allowance for impairment

Opening balance	(41,827,860)	(76,746,140)
Movement in allowance for impairment	7,046,433	34,918,280
	(34,781,427)	(41,827,860)

8. VAT (Payable) / Receivable

VAT (Payable) / Receivable	9,712,876	10,896,467
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VAT is payable on the receipts basis. Only once payment is received from debtors VAT is paid over to SARS.

9. Short term investments

Nedbank	225,866,812	202,882,926
Standard Bank	232,099,635	209,016,485
	457,966,447	411,899,411

The average rate of return on Short-term Investments was 7.94% for the year ended 30 June 2019.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash	23,460	19,060
Bank balances	1,081,468	9,326,904
Short-term deposits	5,015,719	5,003,562
	6,120,647	14,349,526

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Notes to the Annual Financial Statements

				2019 R	2018 R	
10. Cash and cash equivalents (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June, 2019	30 June, 2018	30 June, 2017	30 June, 2019	30 June, 2018	30 June, 2017
Primary Bank Account - Nedbank cheque account 1134644809	(347,712)	8,474,401	141,237	1,081,468	9,326,904	-
Primary Bank Account - Standard Bank cheque account 82846979	-	-	11,138,440	-	-	16,117,119
Traffic Bank Account - Standard Bank 300965338	-	-	(4)	-	-	-
Traffic Bank Account - Nedbank 1134643764	-	-	-	-	-	-
Traffic Bank Account - Nedbank 1180421167	-	-	-	-	-	-
Total	(347,712)	8,474,401	11,279,673	1,081,468	9,326,904	16,117,119
				2019	2018	
Investments: Current portion matures within next 12 months - Refer Note 15.				5,015,719	5,003,562	

All accounts of Mossel Bay Municipality are held with Nedbank. The balance on the two Traffic fines accounts number 1134643764 - Account for Traffic fines, and number 1180421167 - Account for Traffic fines, are swept to the Primary bank account number 1134644809 on a daily basis.

No cash and cash equivalents were pledged as security for liabilities.

No restrictions were placed on the use of cash and cash equivalents.

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11. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Infrastructure						
Coastal Infrastructure	3,993,143	(1,704,006)	2,289,137	3,993,143	(1,515,430)	2,477,713
Electrical Infrastructure	332,782,276	(79,006,072)	253,776,204	315,925,891	(68,522,780)	247,403,111
Information and Communication Infrastructure	5,146,481	(2,656,428)	2,490,053	4,181,721	(2,057,125)	2,124,596
Land	79,945,626	-	79,945,626	80,049,169	-	80,049,169
Roads Infrastructure	414,725,936	(123,287,747)	291,438,189	388,405,679	(108,318,935)	280,086,744
Sanitation Infrastructure	416,529,364	(124,909,810)	291,619,554	386,131,924	(114,501,370)	271,630,554
Solid Waste Infrastructure	24,107,500	(15,183,921)	8,923,579	18,048,759	(15,314,954)	2,733,805
Storm water Infrastructure	194,454,081	(39,311,934)	155,142,147	171,200,889	(33,138,309)	138,062,580
Water Supply Infrastructure	511,568,870	(153,499,222)	358,069,648	490,094,292	(142,846,443)	347,247,849
Community Assets						
Community Assets	312,063,741	(76,465,700)	235,598,041	307,559,421	(68,745,960)	238,813,461
Libraries	12,835,508	(1,934,930)	10,900,578	12,805,875	(1,682,809)	11,123,066
Zoo, Marine and Non-biological Animals	35,285	(14,934)	20,351	35,285	(13,318)	21,967
Land	80,690,345	-	80,690,345	80,690,345	-	80,690,345
Other Assets						
Operational & Housing Buildings	137,565,943	(26,236,800)	111,329,143	125,739,582	(23,584,163)	102,155,419
Machinery and Equipment	38,023,317	(15,704,137)	22,319,180	30,826,829	(14,151,427)	16,675,402
Furniture and Office Equipment	20,993,334	(12,206,467)	8,786,867	19,966,741	(10,918,130)	9,048,611
Computer Equipment	15,511,059	(8,669,752)	6,841,307	14,748,728	(7,143,970)	7,604,758
Transport Assets	70,748,426	(25,497,947)	45,250,479	61,293,013	(22,941,300)	38,351,713
Land	132,264,809	-	132,264,809	132,264,809	-	132,264,809
Total	2,803,985,044	(706,289,807)	2,097,695,237	2,643,962,095	(635,396,423)	2,008,565,672

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers made	Depreciation	Impairment loss	Impairment reversal	Total
Infrastructure									
Coastal Infrastructure	2,477,713	-	-	-	-	(188,576)	-	-	2,289,137
Electrical Infrastructure	247,403,111	27,787,298	(28,079)	13,152,219	(24,022,598)	(10,515,747)	-	-	253,776,204
Information and Communication Infrastructure	2,124,596	1,976,273	(10,601)	865,366	(1,832,530)	(633,051)	-	-	2,490,053
Land	80,049,169	-	(103,543)	-	-	-	-	-	79,945,626
Roads Infrastructure	280,086,744	37,830,418	(92,634)	15,121,257	(26,515,058)	(15,024,027)	-	31,489	291,438,189
Sanitation Infrastructure	271,630,554	28,304,640	-	3,005,676	(912,876)	(10,408,440)	-	-	291,619,554
Solid Waste Infrastructure	2,733,805	5,570,635	-	22,616,372	(22,128,266)	(269,177)	-	400,210	8,923,579
Storm water Infrastructure	138,062,580	11,179,101	-	1,336,287	10,737,805	(6,173,626)	-	-	155,142,147
Water Supply Infrastructure	347,247,849	17,826,142	-	20,507,041	(12,755,056)	(14,756,328)	-	-	358,069,648
Community Assets									
Community Assets	238,813,461	4,321,652	-	5,099,912	(4,917,244)	(7,358,099)	(406,319)	44,678	235,598,041
Libraries	11,123,066	-	-	29,633	-	(252,121)	-	-	10,900,578
Zoo, Marine and Non-biological Animals	21,967	-	-	-	-	(1,616)	-	-	20,351
Land	80,690,345	-	-	-	-	-	-	-	80,690,345
Other Assets									
Operational & Housing Buildings	102,155,419	12,358,135	(54,134)	542,506	(944,615)	(2,728,168)	-	-	111,329,143
Machinery and Equipment	16,675,402	8,030,900	(26,361)	1,947,490	(2,607,466)	(1,700,785)	-	-	22,319,180
Furniture and Office Equipment	9,048,611	1,511,310	(57,350)	1,363,852	(1,586,114)	(1,493,442)	-	-	8,786,867
Computer Equipment	7,604,758	-	(84,722)	1,466,980	(2,850)	(2,142,859)	-	-	6,841,307
Transport Assets	38,351,713	10,416,860	(529,432)	10,722,267	(10,417,449)	(3,293,480)	-	-	45,250,479
Land	132,264,809	-	-	-	-	-	-	-	132,264,809
	2,008,565,672	167,113,364	(986,856)	97,776,858	(97,904,317)	(76,939,542)	(406,319)	476,377	2,097,695,237

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Transfers made	Depreciation	Impairment loss	Total
Infrastructure								
Coastal Infrastructure	2,666,289	-	-	-	-	(188,576)	-	2,477,713
Electrical Infrastructure	232,107,207	24,451,663	(34,138)	21,724,023	(21,726,381)	(9,119,263)	-	247,403,111
Information and Communication Infrastructure	(1,038,139)	3,730,728	(40,425)	3,766,087	(3,766,087)	(527,568)	-	2,124,596
Land	80,277,933	-	(228,764)	60,000	(60,000)	-	-	80,049,169
Roads Infrastructure	278,023,208	25,230,028	(41,515)	38,479,281	(47,861,044)	(13,711,725)	(31,489)	280,086,744
Sanitation Infrastructure	265,740,073	10,997,515	(44,776)	14,297,380	(9,258,910)	(10,100,728)	-	271,630,554
Solid Waste Infrastructure	1,815,167	1,010,994	-	(258,901)	318,724	(152,179)	-	2,733,805
Storm water Infrastructure	129,659,396	11,392,251	-	4,007,933	(2,119,942)	(4,877,058)	-	138,062,580
Water Supply Infrastructure	331,684,114	28,075,785	(83,855)	(634,785)	3,672,938	(15,466,348)	-	347,247,849
Community Assets								
Community Assets	237,599,526	4,355,199	(33,162)	11,079,234	(7,114,088)	(7,028,570)	(44,678)	238,813,461
Libraries	11,375,675	-	-	-	-	(252,609)	-	11,123,066
Zoo, Marine and Non-biological Animals	23,585	-	-	-	-	(1,618)	-	21,967
Land	80,690,345	-	-	-	-	-	-	80,690,345
Other Assets								
Operational & Housing Buildings	98,411,315	10,552,851	(239,134)	20,161,506	(23,980,301)	(2,750,818)	-	102,155,419
Machinery and Equipment	12,637,712	6,260,024	(223,130)	3,263,674	(3,794,043)	(1,468,835)	-	16,675,402
Furniture and Office Equipment	8,458,538	2,183,484	(213,776)	2,267,213	(2,267,213)	(1,379,635)	-	9,048,611
Computer Equipment	9,542,933	-	(99,251)	(35,359)	35,359	(1,838,924)	-	7,604,758
Transport Assets	31,886,046	9,431,105	(199,063)	9,381,891	(9,381,891)	(2,766,375)	-	38,351,713
Land	132,264,809	-	-	-	-	-	-	132,264,809
	1,943,825,732	137,671,627	(1,480,989)	127,559,177	(127,302,879)	(71,630,829)	(76,167)	2,008,565,672

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	2019 R	2018 R
11. Property, plant and equipment (continued)		
Reconciliation of Depreciation Charge for Property, Plant and Equipment		
The depreciation charge for the year i.r.o. the Water Treatment Plant is reallocated to water inventory consumed.		
The depreciation charge for Property, Plant and Equipment was recognised as follows:		
Included in the depreciation expense	75,252,758	68,568,690
Included in water inventory consumed	1,686,784	3,062,139
Total depreciation charge for the year	76,939,542	71,630,829

Reconciliation of Work-in-Progress 2019

	Opening balance	Additions / capital expenditure	Finalised during the year	Total
Infrastructure				
Electrical infrastructure	15,893,713	27,787,298	(23,047,059)	20,633,952
Information and communications infrastructure	-	1,976,273	(1,778,273)	198,000
Road infrastructure	17,453,325	37,830,417	(29,653,167)	25,630,575
Sanitation infrastructure	17,278,513	28,304,641	(569,309)	45,013,845
Solid waste infrastructure	-	5,570,635	(5,567,295)	3,340
Storm-water infrastructure	728,215	11,179,101	(1,296,607)	10,610,709
Water supply infrastructure	49,627,501	17,826,143	(1,178,530)	66,275,114
Community Assets				
Community Assets	1,170,550	4,321,653	(4,917,244)	574,959
Other assets				
Operational & Housing Buildings	1,562,223	12,358,134	(1,158,908)	12,761,449
Machinery and Equipment	6,027,623	8,030,900	(2,681,675)	11,376,848
Furniture and Office Equipment	-	1,511,310	(1,511,310)	-
Transport Assets	-	10,416,859	(10,416,859)	-
	109,741,663	167,113,364	(83,776,236)	193,078,791

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			2019 R	2018 R
11. Property, plant and equipment (continued)				
Reconciliation of Work-in-Progress 2018				
	Opening balance	Additions / capital expenditure	Finalised during the year	Total
Infrastructure				
Electrical Infrastructure	16,344,657	24,465,874	(24,916,818)	15,893,713
Information and communications Infrastructure	-	3,730,728	(3,730,728)	-
Road Infrastructure	43,101,774	25,513,878	(51,162,327)	17,453,325
Sanitation Infrastructure	19,585,973	10,997,515	(13,304,975)	17,278,513
Storm-water Infrastructure	6,888,677	11,392,251	(17,552,713)	728,215
Water supply Infrastructure	35,455,363	28,075,785	(13,903,647)	49,627,501
Community Assets				
Community Assets	2,438,824	4,355,199	(5,623,473)	1,170,550
Other Assets				
Operational & Housing Buildings	5,146,378	10,343,860	(13,928,015)	1,562,223
Machinery and Equipment	3,565,938	6,256,096	(3,794,411)	6,027,623
Furniture and Office Equipment	-	2,263,143	(2,263,143)	-
Transport Assets	-	9,431,104	(9,431,104)	-
	132,527,584	136,825,433	(159,611,354)	109,741,663

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
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	2019 R	2018 R
11. Property, plant and equipment (continued)		
Expenditure incurred to repair and maintain property, plant and equipment		
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	40,867,089	36,292,828
Employee related costs	42,512,901	39,608,365
Sale of goods/Inventory	13,663,469	12,411,563
General expenses	761,005	795,188
	97,804,464	89,107,944

Property, Plant and Equipment are initially recognised at cost and are carried at cost less accumulated depreciation and impairments.

There are no restrictions on the realisability of Property, Plant and Equipment or the remittance of revenue and proceeds of de-recognition.

No Property, Plant and Equipment are pledged as security for liabilities, except for leased property as set out in Note 17.

There were no significant delays on projects or any construction halted for the reporting period.

Refer to Notes 48 for detail regarding the change in accounting estimates relating to change in useful lives and residual value of PPE assets.

Refer to Note 56 for the amount of contractual commitment for the acquisition of PPE. The amount of R 279 718 880 for contracted commitments is approved and contracted.

Finance lease liabilities are secured over the items of computer equipment and office equipment leased. The total carrying value of these leased assets at 30 June 2019 is R12 620 and include leased assets where the finance leases have been fully redeemed, but the assets are still used by the Municipality. The monthly payments regarding these leased assets are treated as operating leases.

Included in the infrastructure cost is an amount of R127 832 541 for Seawater Desalination Plant which was completed during the 2012/13 year and is the Municipality's portion of the capital expenditure for the construction of a jointly-owned 15 Mega litres per day Seawater Desalination facility. There are no budget capital commitments toward the seawater Desalination facility for the following year.

The impairment of the Louis Fourie / Dana Bay traffic lights at the intersection and the carport next to the main offices were reversed as a result of the restoration work that was completed during the current financial year.

The flood lights on the D'Almeida sport field carry an impairment as at the reporting date due to vandalism.

Mossel Bay Municipality
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12. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	603,661,121	(9,441,505)	594,219,616	605,527,829	(8,642,398)	596,885,431

Reconciliation of investment property - 2019

	Opening balance	Disposals	Transfers made	Depreciation	Total
Investment property	596,885,431	(1,881,085)	127,209	(911,939)	594,219,616

Reconciliation of investment property - 2018

	Opening balance	Additions	Disposals	Transfers received	Transfers made	Depreciation	Total
Investment property	600,565,468	-	(2,553,783)	479,115	(735,417)	(869,952)	596,885,431

Mossel Bay Municipality
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	2019 R	2018 R
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12. Investment property (continued)

Amounts recognised in surplus or deficit

Rental revenue from Investment property	4,976,896	4,468,064
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At initial recognition, the Municipality measures Investment Property at cost and the cost model is applied to investment property for subsequent measurement. Under the cost model, Investment Property is carried at its cost minus accumulated depreciation at the reporting date.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of de-recognition.

No investment properties were pledged as security for liabilities.

The depreciation expense is included in the line item "Depreciation and amortisation" Note 37 in the Statement of Financial Performance.

There were no significant delays on projects or any construction halted for the reporting period.

Expenditure incurred to repair and maintain investment property

Materials and supplies	-	5,202
	-	5,202

Mossel Bay Municipality
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	2019 R	2018 R
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13. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,220,499	(753,123)	467,376	1,220,249	(626,541)	593,708

Reconciliation of intangible assets - 2019

	Opening balance	Transfers received	Amortisation	Total
Computer software	593,708	250	(126,582)	467,376

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	724,356	(130,648)	593,708

Other information

Intangible assets are initially recognised at cost and are carried at cost less accumulated amortisation and impairments.

Intangible assets have finite useful lives and the estimated remaining useful lives are reviewed at each reporting period.

The amortisation expense is included in the line item "Depreciation and amortisation " (Note 37) in the Statement of Financial Performance.

The Municipality does not have any internally generated intangible assets.

No restrictions are placed on intangible assets.

No intangible assets were pledged as security for liabilities.

Expenditure incurred to repair and maintain intangible assets

No repairs and maintenance were incurred during the current or previous year.

14. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	95,003	-	95,003	95,003	-	95,003
Conservation areas	730,200	-	730,200	730,200	-	730,200
Historical buildings	3,397,827	-	3,397,827	3,397,827	-	3,397,827
Other	2,569	-	2,569	2,569	-	2,569
Total	4,225,599	-	4,225,599	4,225,599	-	4,225,599

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	2019 R	2018 R
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14. Heritage assets (continued)

Reconciliation of heritage assets 2019

	Opening balance	Additions	Impairment losses recognised	Total
Historical monuments	95,003	-	-	95,003
Conservation areas	730,200	-	-	730,200
Historical buildings	3,397,827	-	-	3,397,827
Other	2,569	-	-	2,569
	4,225,599	-	-	4,225,599

Reconciliation of heritage assets 2018

	Opening balance	Additions	Impairment losses recognised	Total
Historical monuments	95,003	-	-	95,003
Conservation areas	730,200	-	-	730,200
Historical buildings	3,397,827	-	-	3,397,827
Other	2,569	-	-	2,569
	4,225,599	-	-	4,225,599

There is no restrictions on title and disposal of heritage assets and no heritage assets are pledged as securities.

Heritage assets which fair values cannot be reliably measured due to impracticability:

Site 3419, Mossel Bay - Cave at the point

The Cape st. Blaize Cave at the point in Mosselbay, situated on site 3419, is classified as a heritage asset controlled and owned by the Municipality. The Cape st. Blaize Cave yield artefacts dating back 80 000 years. The artefacts themselves are housed at the Culture Museum which is not controlled or owned by the Municipality.

Sites 7357 and 2938 Mossel Bay - Harry Giddey

The Harry Giddey Park on site 2938 is classified as a heritage asset of the Municipality. The park was erected in 1887 and originally named after Queen Victoria of England to commemorate her 50th year as Queen. The park was renamed later in 1939 as the Harry Giddey Park in honour of Mr Harry Giddey, a wealthy person of Mossel Bay, for all the efforts to upgrade the park.

Expenditure incurred to repair and maintain heritage assets

No repairs and maintenance were incurred during the current or previous year.

Mossel Bay Municipality
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	2019 R	2018 R
15. Investments		
Long-term Investments	48,000,000	36,000,000
Long-term Deposits: Other bodies	77,771	3,484,725
Less: Payment to other bodies	(77,771)	(3,484,725)
	48,000,000	36,000,000

No investments were written off during the year.

The average rate of return on Long-term Investments was 10.65% for the year ended 30 June 2019.

Investments are made in accordance with the Municipality's Cash Management and Investment policy as follows:

- That the broad investment policy framework be applicable
- Investments not be placed with foreign banks
- Council's total investment portfolio be invested with banks according to the investment policy
- Not more than 50% of the total investments placed with one institution

Long-term Deposits: Other bodies (Group Schemes):

These deposits are Group Scheme funds of employees that are paid over to the Municipality, who then invests these funds in the name of the employee in Money market funds. It therefore has no impact on the Municipality's Statement of Financial Position.

16. Other financial liabilities

At amortised cost

Long term loans	30,830,781	33,842,799
Local registered stock loans	-	44,572

Total other financial liabilities	30,830,781	33,887,371
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Local registered stock loans:

Local registered stock loans bear interest at rates of 12 percent per annum and expired in October 2018.

Long term loans:

The Municipality has taken up a R30 million loan from the Development Bank of South Africa to fund the Seawater Desalination plant constructed in the 10/11 financial year. This loan is for a period of 30 years and bears interest at a floating rate of 10.55%.

The Municipality has taken up a R4,8 million loan from ABSA Bank in the 15/16 financial year, a R6,5 million loan from ABSA in the 16/17 financial year and a R5,6 million loan from Nedbank in the 17/18 year to fund the Midbrak main sewer network project. These loans are for a period of 10 years. The 4.8 million loan bears interest at a floating rate of 9%, whilst the other two loans bear interest at an all-in rate of 10% and 9%, respectively.

The loans are redeemed bi-annually.

Refer to Appendix A for more detail on other financial liabilities.

Mossel Bay Municipality
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	2019 R	2018 R
16. Other financial liabilities (continued)		
Non-current liabilities		
At amortised cost	27,342,832	30,651,228
Current liabilities		
At amortised cost	3,487,949	3,236,143
	30,830,781	34,139,177
17. Finance lease obligation		
Minimum lease payments due		
- within one year	6,076	13,785
- in second to fifth year inclusive	-	6,076
	6,076	19,861
less: future finance charges	(143)	(984)
Present value of minimum lease payments	5,933	18,877
Present value of minimum lease payments due		
- within one year	5,933	12,944
- in second to fifth year inclusive	-	5,933
	5,933	18,877
Non-current liabilities	-	5,933
Current liabilities	5,933	12,944
	5,933	18,877
<p>Finance lease liabilities relate to computers with lease terms not more than five years. Finance leases bear interest at 7.19 percent for Computers (30 June 2018: between 9.27 percent for Computers and between 9 and 31 percent for Office Equipment). Finance lease liabilities are secured by the items of computers leased.</p> <p>The computers held as security for the finance lease liabilities had a carrying value of R12 620 as at 30 June 2019 (30 June 2018: the computers had a carrying value of R9 501 and the office equipment a carrying value of R 13 635).</p>		
18. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Non-current liabilities		
Post-Retirement Medical Aid benefits liability	111,835,674	85,930,000
Ex-gratia pension benefits liability	1,289,459	1,279,000
Long service awards	15,471,049	15,507,000
	128,596,182	102,716,000
Current liabilities		
Post-Retirement Medical Aid benefits liability	5,319,973	4,699,000
Ex-gratia pension benefits liability	179,952	196,000
Long service awards	1,679,484	1,065,000
Performance bonus accrual	941,980	956,856
Staff leave accrual	14,166,854	14,691,330
Employee bonus accrual	6,924,683	5,157,635
Employee overtime / Standby allowance accrual	1,373,691	1,090,860
	30,586,617	27,856,681

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	2019 R	2018 R
18. Employee benefit obligations (continued)		
Total liabilities		
Post-Retirement Medical Aid benefits liability	117,155,647	90,629,000
Ex-gratia pension benefits liability	1,469,411	1,475,000
Long service awards	17,150,533	16,572,000
Performance bonus accrual	941,980	956,856
Staff leave accrual	14,166,854	14,691,330
Employee bonus accrual	6,924,683	5,157,635
Employee overtime / Standby allowance accrual	1,373,691	1,090,860
	159,182,799	130,572,681

18.1 POST EMPLOYMENT HEALTH CARE BENEFITS

Medical Scheme arrangements:

The employer offers in-service members and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Post-employment Subsidy policy:

In-service members will receive a post-employment subsidy of 70% of the contribution payable should they be a member of a medical scheme at retirement, and subject to the following minimum service conditions:

- If appointed after 01/07/2013, but before or on 01/09/2014, the in-service member must have at least 10 years' uninterrupted service.
- If appointed after 01/09/2014, but before or on 01/03/2017, the in-service member must have at least 15 years' uninterrupted service. In this scenario, if the in-service member was appointed after 01/05/2015 and meets the stipulated minimum service, then receipt of the post-employment medical aid subsidy may commence from age 65 only.
- In-service members appointed after 01/03/2017 do not qualify for a post-employment medical aid subsidy.

All continuation members and their eligible dependants receive a subsidy of 70%. However, there are three members who receive a subsidy of 100%.

Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same subsidy.

All post-employment subsidies are subject to a maximum of R 4 492.35 per member per month, for the year ending 30 June 2020 (2018: R 4 027).

Valuation method:

In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been applied. The valuation has been made with reference to the Actuarial Society of South Africa (ASSA) guidelines and in particular the Advisory Practice Note 301, which meets the requirements of GRAP 25.

The Post Employment Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:

In-service (employee) members	448	491
Continuation members	127	125
	575	616

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	2019 R	2018 R
18. Employee benefit obligations (continued)		
The unfunded liability in respect of past service has been estimated as follows:		
In-service (employee) members	49,579,215	37,397,000
Continuation members	67,576,432	53,232,000
	117,155,647	90,629,000
Summary of active employees		
Number of principal members	448	491
Average age (years)	43	42
Average past service (years)	12	11
Average employer monthly contribution	2,883	2,437
Average number of dependants	2	-
Summary of continuation pensioners:		
Number of principal members	127	125
Average age (years)	69	68
Average employer monthly contributions	3,376	3,601
Average number of spouse dependants	0.50	-
The municipality contributes monthly for health care arrangements, to the following medical aid schemes:		
• Bonitas		
• LA Health		
• Hosmed		
• Key Health		
• SamwumedD		
<u>Results of valuations:</u>		
Results of Valuations		
Accrued Liability		
Active employees	49,579,215	37,397,000
Continuation pensioners	67,576,432	53,232,000
	117,155,647	90,629,000
All members		
Total value of liabilities	117,155,647	90,629,000
Value of assets	-	-
Unfunded accrued liability	117,155,647	90,629,000
The total liability increased by 29.3% over the accounting period.		
Current service and interest cost		
Current service cost (Active employees)	1,095,017	2,933,000
Interest cost (All members)	8,696,000	7,709,000
	9,791,017	10,642,000
Actuarial gains and losses		
Actuarial (Gain) / Loss for the period	22,513,044	6,944,373

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	2019 R	2018 R
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18. Employee benefit obligations (continued)

The main reasons for the movement in the liability:

The total liability has increased by 29% (R 26.527 million) since the last valuation.

In-service members:

The average in-service member liability has increased by 45% since the last valuation due to the following factors:

- an increase in the assumed proportion of in-service members with a spouse dependant on their medical aid at and after retirement;
- the application of revised withdrawal rates;
- the allowance for expected post-employment mortality improvement;
- an increase in the average age which means members are closer to retirement (less discounting) and less likely to leave before retirement;
- an increase in the average past service;
- an increase in the average post-employment subsidy;
- a change in the method of maximum subsidy inflation (from 50% of CPI inflation to 75% of salary inflation); and
- the net effect of changes in the net discount rates (following the aforementioned change in methodology).

These impacts were partially offset by a decrease in the assumed proportion of in-service members who continue their medical aid membership at and after retirement, and the application of minimum service eligibility conditions.

The total in-service member liability has increased by 33% due to the above, partially offset by a decrease in the number of in-service members.

Continuation members:

The average continuation member liability has increased by 25% since the last valuation due to the following factors:

- a change in the method of maximum subsidy inflation (from 50% CPI inflation to 75% of salary inflation);
- the net effect of changes in the net discount rates (following the aforementioned change in methodology); and
- because allowance has been made for the expected improvement in post-employment mortality.

These impacts were partially offset by a decrease in the average subsidy and an increase in the average age.

The total continuation member liability has increased by 27% due to the above, combined with an increase in the number of continuation members.

Past and future changes in the accrued liability	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020	Year ending 30/06/2021
Opening accrued liability	96,341,000	78,430,000	90,629,000	117,155,647	126,147,460
Current service cost	3,871,000	2,933,000	3,455,000	3,589,424	3,925,394
Minimum Service Eligibility Conditions	-	-	(2,359,983)	-	-
Interest Cost	7,706,000	7,709,000	8,696,000	10,722,362	11,547,396
Contributions (Benefit payments)	(5,000,303)	(5,387,373)	(5,777,414)	(5,319,973)	(5,682,795)
	102,917,697	83,684,627	94,642,603	126,147,460	135,937,455
Actuarial Loss / (Gain)	(24,487,697)	6,944,373	22,513,044	-	-
	78,430,000	90,629,000	117,155,647	126,147,460	135,937,455

**Notes to the above table:*

- The projections assume that the employer's health care arrangements and subsidy policy will remain as outlined and that all the actuarial assumptions made are borne out in practice. In addition, it is assumed that no contributions are made by the employer towards prefunding its liability via an off-balance sheet vehicle.
- Contributions or benefits paid refer to medical scheme contributions made by the employer with respect to its subsidy of current continuation members.
- There are no Past Service Costs, Curtailments or Settlements to reflect.

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	2019 R	2018 R
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18. Employee benefit obligations (continued)

Key actuarial assumptions used:

In estimating the unfunded liability for post-employment health care benefits a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased and mutually compatible.

Financial assumptions:

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the valuation date for the period over which the liability obligations are to be settled.

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Net Discount Rate	2019	2018
Discount rate	9.36 %	9.85 %
Consumer price inflation	5.32 %	6.11 %
Health care cost inflation	6.82 %	7.11 %
Net discount rate	2.38 %	2.56 %
Maximum subsidy inflation rate	4.74 %	3.06 %
Net-of-maximum-subsidy-inflation discount rate*	4.41 %	6.59 %

**The "net-of-maximum-subsidy-inflation discount rate" as at 30/06/2018 would have been 4.29% if the corresponding maximum subsidy inflation rate was derived using this valuation's methodology (namely, 75% of salary inflation, instead of 50% of CPI inflation).*

The methodology of setting the financial assumptions:

GRAP 25 stipulates that the choice of the discount rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

A discount rate of 9.36% per annum has been used. The corresponding index-linked yield at this term is 3.36%. These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 28 June 2019. The rates were calculated using a liability-weighted average of the yields for the three components of the liability (i.e. in-service members' retirement liability, death-in-service liability and continuation members' liability). Each component's fixed-interest and index-linked yields were taken from the respective bond yield curves at that component's duration.

A healthcare cost inflation rate of 6.82% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.32%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 2.38% which derives from $[(1+9.36\%-0.50\%)/(1+6.82\%)]-1$.

The expected inflation assumption of 5.32% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.36%) and those of fixed interest bonds (9.36%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $[(1+9.36\%-0.50\%)/(1+3.36\%)]-1$.

The next contribution increase was assumed to occur with effect from 01 January 2020.

The maximum subsidy inflation rate assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 4 492.35 for the year ending 30 June 2020. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

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	2019 R	2018 R
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18. Employee benefit obligations (continued)

Recent past annual increases balanced with sustainability needs of employees have resulted in the assumption being set at 75% of salary inflation. The future salary inflation assumption of 6.32% was set to be 1% above expected CPI inflation. Thus, a maximum subsidy inflation assumption of 4.74% was assumed. The next increase to the maximum subsidy was assumed to occur with effect from 01 July 2020.

The replacement ratio is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Demographic and decrement assumptions used	2019	2018
Normal retirement age	65	65
Average retirement age	63	63
Mortality during employment	SA 85-90	SA 85-90
Mortality post-employment	PA(90)-1 with a 1% mortality improvement p.a. from 2010	PA(90)
Proportion with a spouse dependant at retirement	80%	70%
Continuation of membership at retirement	90%	100%

The normal retirement age of employees is 65 years. It has been assumed that in-service members will retire at age 63 on average, which then implicitly allows for expected rates of ill-health and early retirement.

It has been assumed that 90% of in-service members will remain on the employer's health care arrangement should they stay until retirement.

It has been assumed that female spouses will be five years younger than their male counterparts. Furthermore, it has been assumed that 80% of eligible in-service members on a health care arrangement at retirement will have a spouse dependant on their medical aid. For current retiree members, actual medical aid dependants were used and the potential for remarriage was ignored.

It is recognised that a contingent liability may exist in respect of employees who have not joined a medical aid scheme, but are entitled to this benefit and may join in the future. It was assumed that these employees will not join a medical aid scheme.

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	2019 R	2018 R
18. Employee benefit obligations (continued)		
Withdrawal rates over the current valuation period:		
Age band	Withdrawal rate - males	Withdrawal rate - females
20 - 24	9 %	9 %
25 - 29	8 %	8 %
30 - 34	6 %	6 %
35 - 39	5 %	5 %
40 - 44	5 %	5 %
45 - 49	4 %	4 %
50 - 54	3 %	3 %
55 - 59	0 %	0 %
60+	0 %	0 %

If an in-service member leaves, the employer's liability in respect of that employee ceases.

Amounts recognised in the Statement of Financial Position are as follows:	2019	2018
Present value of fund obligations	117,155,647	90,629,000
Fair value of plan assets	-	-
Unfunded accrued liability	117,155,647	90,629,000
Unrecognised transitional liability	-	-
Unrecognised past service cost	-	-
Unrecognised actuarial gains (losses)	-	-
Miscellaneous item	-	-
Net liability	117,155,647	90,629,000

The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	1,095,017	2,933,000
Interest cost	8,696,000	7,709,000
Actuarial (gains) / loss	22,513,044	6,944,373
Total included in employee related cost - Refer to note 35	32,304,061	17,586,373

History of Liabilities, Assets and Experience Adjustments

Present value of accrued liability and Fair value of plan assets	Year ended 30/06/2015 R'000	Year ended 30/06/2016 R'000	Year ended 30/06/2017 R'000	Year ended 30/06/2018 R'000	Year ended 30/06/2019 R'000
Present value of accrued liability	86,151	96,341	78,340	90,629	117,156
Fair value of plan assets	-	-	-	-	-
Surplus / (deficit)	(86,151)	(96,341)	(78,340)	(90,629)	(117,156)

Experience adjustments:

Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred. The experience adjustments for the current period is as follows:

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	2019 R	2018 R
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18. Employee benefit obligations (continued)

	Year ended 30/06/2015 R'000	Year ended 30/06/2016 R'000	Year ended 30/06/2017 R'000	Year ended 30/06/2018 R'000	Year ended 30/06/2019 R'000
Plan liabilities (gain) / loss	(145)	(91)	(12)	10	(5)
Plan assets gain / (loss)	-	-	-	-	-

Sensitivity analysis:

The accrued liability is a function of the valuation assumptions, and which may or may not be borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses recognised immediately in the income statement by Mossel Bay Municipality.

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below.

	Decrease R'000	30 June 2019 Valuation basis R'000	Increase R'000
Effect of a 1% change in the health care inflation rate	108,158	117,156	123,593
Effect of a 1% change in the discount rate	135,245	117,156	102,708

Mortality

The table that follow shows the impact of a change in the mortality assumption from the base assumption of PA(90)-1. It shows the effect of a decrease in the post-employment mortality, average retirement age and continuation of membership at retirement, respectively.

	Decrease R'000	30 June 2019 Valuation basis R'000
Effect of a 1 year decrease in the post-employment mortality*	120,327	117,156
Effect of a 1 year decrease in the average retirement age	121,151	117,156
Effect of a 10% decrease in the continuation of membership at retirement	112,153	117,156

*The post-employment mortality adjustment assumed that someone aged 70 years will experience the mortality of someone aged 69 years. The liability is expected to increase under this scenario because members are expected to live longer.

18.2 EX-GRATIA GRATUITIES

The employer's ex-gratia pensions liability consists of a commitment to pay pensions to eligible employees upon meeting the condition admissible for an ex-gratia pension. This liability is also generated in respect of spouse dependants who are offered continued ex-gratia pensions on the death of the primary ex-gratia pensioner.

Mossel Bay is committed to pay ex-gratia pensions as follows:

- The ex-gratia pensions are paid by the Municipality from its revenue and are therefore not funded or paid from any of the Municipality's pension funds. The revenue pensions are also referred to as "ex-gratia" pensions. ex-gratia pensioners receive a monthly ex-gratia pension, increased annually and payable for life.
- Spouses receive 60% upon the ex-gratia pensioner's death.
- Increases are in line with those of the Cape Joint Pension Fund, namely, targeting 50% of CPI inflation.

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	2019 R	2018 R
18. Employee benefit obligations (continued)		
<u>Valuation method:</u>		
In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been used to value the liabilities. The valuation has been made with reference to the Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 301, and meets the requirements of GRAP 25.		
Statistics on eligible retirees:	2019	2018
Number of pensioners	6	7
Employer's average monthly pension payment	2,499	2,330
Pension-weighted average age (years)	79	81
<u>Results of Valuation:</u>		
Accrued liability		
Total value of liabilities	1,469,411	1,475,000
Value of assets	-	-
Unfunded accrued liability	1,469,411	1,475,000
The total liability decreased by 0.38% over the accounting period.		
Interest Costs and Current-Service Costs		
Total interest cost	120,000	124,000
Current-Service Costs	-	-
	120,000	124,000

The current-service cost is nil as there are no current employees entitled to an ex-gratia pension benefit.

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	2019 R	2018 R
18. Employee benefit obligations (continued)		
Actuarial gains and losses		
Actuarial (gain) / loss for the period	66,193	725

The main reasons for the movement in the liability:

The average liability has increased by 16% since the last valuation due to:

- a decrease in the net discount rate;
- a decrease in the average age;
- an increase in the average pension; and
- because allowance has been made for the expected improvement in post-employment mortality.

The total liability has decreased by less than 1% (or R 5 589) since the last valuation, due to the above being more than offset by a decrease in the number of pensioners.

Past and future changes in the accrued liability

Liability History	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020	Year ending 30/06/2021
Opening accrued liability	1,625,000	1,546,000	1,475,000	1,469,411	1,389,859
Current service cost*					
- Interest cost	129,000	124,000	120,000	100,400	94,891
- Benefit payments	(198,052)	(195,725)	(191,782)	(179,952)	(172,248)
Actuarial (gain) / losses	(9,948)	725	66,193	-	-
Surplus / (Deficit)	1,546,000	1,475,000	1,469,411	1,389,859	1,312,502

*Notes to the above table:

- The projections assume that the ex-gratia arrangements remain as outlined, and that all the actuarial assumptions made are borne out in practice. In addition, it is assumed that no contributions are made by the employer towards prefunding its liability via an off-balance sheet vehicle.
- There are no Past Service Costs, Curtailments or Settlements to reflect.

Key actuarial assumptions used:

In estimating the unfunded liability for the ex-gratia liability, a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased and mutually compatible.

Financial assumptions:

It is difficult to predict future investment returns and pension increase rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the valuation date for the period over which the liability obligations are to be settled.

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

	2019	2018
Net discount rate		
Discount rate (D)	7.27 %	8.75 %
Consumer price inflation (C)	4.03 %	5.36 %
Ex-Gratia pension increase (50% of CPI)	2.02 %	2.68 %
Net discount rate $((1+D)/(1+H)-1)$	5.15 %	5.91 %

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	2019 R	2018 R
18. Employee benefit obligations (continued)		
<u>The methodology of setting the financial assumptions:</u>		
GRAP 25 stipulates that the choice of the discount rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.		
A discount rate of 7.27% per annum has been used. The corresponding index-linked yield at this term is 2.63%. These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 28 June 2019.		
The CPI inflation rate assumption is used to calculate the estimated growth in pensions of the eligible pensioners.		
An expected inflation assumption of 4.03% was obtained from the differential between market yields on index-linked bonds (2.63%) consistent with the estimated term of the liability and those of fixed-interest bonds (7.27%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $[(1+7.27\%-0.50\%)/(1+2.63\%)]$.		
Thus, a pension increase rate of 2.02% per annum over the expected term of the liability has been assumed, which is 50% of the estimate of CPI inflation over the same term. This assumption reflects a post-retirement net discount rate of 5.15%.		
<u>Demographic and Decrement Assumptions:</u>		
The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:		
Mortality in retirement	Ex-Gratia Pensioners PA (90) - 1 with a 1% mortality improvement p.a. from 2010	
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	1,469,411	1,475,000
Fair value of plan assets	-	-
	1,469,411	1,475,000
Unrecognised transitional liability	-	-
Unrecognised past service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Miscellaneous item	-	-
Net liability	1,469,411	1,475,000
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	-	-
Interest cost	120,000	124,000
Actuarial (gains) / losses	66,193	725
Total included in employee related cost - Refer to note 35	186,193	124,725

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	2019 R	2018 R
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18. Employee benefit obligations (continued)

History of Liabilities, Assets and Experience Adjustments:

Present value of accrued liability and Fair value of plan assets

	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Present value of accrued liability	-	1,625,000	1,546,000	1,475,000	1,469,411
Fair value of plan assets	-	-	-	-	-
Surplus / (deficit)	-	(1,625,000)	(1,546,000)	(1,475,000)	(1,469,411)

Experience adjustments:

Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred. The experience adjustments is as follows:

	Year ending 30/06/2018	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Plan liabilities (gain) / loss	(23,737)	5,000	(5,000)	17,000	(144,080)
Plan assets	-	-	-	-	-

Sensitivity analysis:

The accrued liability is a function of the valuation assumptions, and which may or may not be borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses recognised immediately in the income statement by Mossel Bay Municipality.

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below.

	1% decrease R'000	30 June 2019 Valuation basis R'000	1% increase R'000
Effect of a 1% change in the pension increase rate	1,386	1,469	1,562
Effect of a 1% change in the discount rate	1,558	1,469	1,390

Mortality:

The table that follow shows the impact of a change in the mortality assumption:

	Decrease R'000	30 June 2019 Valuation basis R'000
Effect of a 1 year decrease in the post-retirement mortality on the total liability	1,528	1,469
Effect of a 1 year decrease in the post-retirement mortality on the interest cost	105	100

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			2019 R	2018 R
18. Employee benefit obligations (continued)				
18.3 LONG SERVICE AWARDS				
<p>The long service bonus awards are accumulated leave days allocated for years of service by the employee to the Municipality. The long service bonus awards are allocated in the form of annual leave days and is convertible into cash in the year the employee attains the service eligible for an award. As a result the award is also a function of the employee's annual salary. The annual salary is converted into a daily salary by dividing the annual salary by 249.</p> <p><u>Nature of the liability:</u></p> <p>The employer's long service bonus awards consist of an obligation to pay out a bonus in the year the employee attains the required service. This obligation represents a liability to the employer and the value is represented by the present value of the total long service bonus awards expected to become payable under the employer's current policy.</p> <p>Mossel Bay Municipality offers bonuses for every 5 years of completed service from 10 years to 45 years. In addition a 14th Cheque is awarded from 30 years of service onwards to 45 years. Below we outline the benefits awarded to qualifying employees.</p>				
Completed Service (Years)	Long Service Bonus Award (Working Days)	14th Cheque	Determination of cash bonus	
10	10	-	$(10/249^*) \times \text{Annual Salary}$	
15	15	-	$(15/249^*) \times \text{Annual Salary}$	
20	20	-	$(20/249^*) \times \text{Annual Salary}$	
25	25	-	$(25/249^*) \times \text{Annual Salary}$	
30	30	14th cheque = $1/12 \times \text{Annual Salary}$	$(30/249^* + 1/12) \times \text{Annual Salary}$	
35	35	14th cheque = $1/12 \times \text{Annual Salary}$	$(35/249^* + 1/12) \times \text{Annual Salary}$	
40	40	14th cheque = $1/12 \times \text{Annual Salary}$	$(40/249^* + 1/12) \times \text{Annual Salary}$	
45	45	14th cheque = $1/12 \times \text{Annual Salary}$	$(45/249^* + 1/12) \times \text{Annual Salary}$	
<p>*A day of accumulated leave is worth 1/249 of the annual salary.</p> <p>Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. The assumption is that in all cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.</p> <p><u>Valuation method:</u></p> <p>In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been used to value the liabilities. The valuation has been made with reference to the Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 301, and meets the requirements of GRAP 25.</p> <p><u>Valuation of Assets:</u></p> <p>We are not aware of any assets set aside for long service bonus awards funding that qualify as plan assets in terms of the requirements of GRAP 25. As such a nil value has been ascribed to the fair value of plan assets.</p>				
Statistics on eligible employees				
Number of eligible employees			927	935
Average annual earnings (Rand)			188,606	176,824
Earnings-weighted average age (years)			44	42
Earnings-weighted average past service (years)			12	10*
<p>*The average past service as at 30 June 2018 is not earnings-weighted.</p>				
<u>Results of valuation:</u>				
Accrued liability				
Total value of liabilities			17,150,533	16,572,000

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	2019 R	2018 R
18. Employee benefit obligations (continued)		
Value of assets	-	-
Unfunded Accrued Liability	17,150,533	16,572,000
Average liability per member	18,501	17,724

The total liability increased by 3.5% over the accounting period.

The main reasons for the movement in the liability:

The average liability has increased by 5% since the last valuation due to:

- the application of revised withdrawal rates;
- an increase in the average earnings; and
- an increase in average past service.
- These impacts were partially offset by an increase in the net discount rate.

The total liability has increased by 3% (or R 578 533) due to the above, partially offset by the fact that there are eight fewer eligible employees than at the last valuation.

Past and Future Changes in the Accrued Liability:	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020	Year ending 30/06/2021
Opening Accrued Liability	14,673,000	15,326,000	16,572,000	17,150,533	18,302,483
Current service cost	1,100,000	1,122,000	1,211,000	1,489,324	1,611,746
Interest cost	1,344,000	1,293,000	1,448,000	1,342,110	1,433,472
Benefit payments	(1,021,155)	(1,650,770)	(1,004,309)	(1,679,484)	(1,762,089)
Actuarial Loss / (Gain)	(769,845)	481,770	(1,076,158)	-	-
	15,326,000	16,572,000	17,150,533	18,302,483	19,585,612

Notes to the above table:

- These projections assume that the long service awards arrangements remain as outlined, and that all the actuarial assumptions made are borne out in practice. In addition, it is assumed that no contributions are made by the employer towards prefunding its liability via an off-balance sheet vehicle.
- There are no Past Service Costs, Curtailments or Settlements to reflect.

Key actuarial assumptions used:

In estimating the unfunded liability for long service awards a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased and mutually compatible.

Financial Variables:

It is difficult to predict future investment returns and earnings inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the valuation date for the period over which the liability obligations are to be settled.

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

	2019	2018
Net discount rate		
Discount rate	8.22 %	9.03 %
Consumer price inflation	4.59 %	6.03 %
General earnings inflation rate (long-term)	5.59 %	7.03 %
Net discount rate	2.49 %	1.87 %

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18. Employee benefit obligations (continued)

The methodology of setting the financial assumptions:

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

A discount rate of 8.22% per annum have been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.22% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.99%. These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the JSE after the market close on 28 June 2019.

The liability-weighted average term of the total liability is 7.70 years.

The earnings inflation rate assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important that the long service awards are based on an employee's earnings at the date of the award.

The general earnings inflation is more stable relative to the growth in CPI than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 4.59% was obtained from the differential between market yields on index-linked bonds (2.99%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.22%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $[(1+8.22\%-0.50\%)/(1+2.99\%)]-1$.

Thus, a general earnings inflation rate of 5.59% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.49%.

It has been assumed that the next earnings increase will take place on 01 July 2020.

Demographic and mortality assumptions:

	2019	2018
Normal retirement age (years)	65	65
Average retirement age	63	63
Pre-retirement mortality	SA85-90	SA85-90

The normal retirement age of employees is 65 years. It has been assumed that employees will retire at age 63 on average, which then implicitly allows for expected rates of ill-health and early retirement.

Promotional earnings scale:

The annual inflation rates below are in addition to the general earnings inflation assumption of 5.59% per annum for all employees:

Age band	Promotional increases
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
>44	0%

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18. Employee benefit obligations (continued)

Withdrawal from service:

The following withdrawal assumptions were applicable over the current valuation period:

Withdrawal rates over the current valuation period:

Age band	Withdrawal rate - males	Withdrawal rate - females
20 - 24	9 %	9 %
25 - 29	8 %	8 %
30 - 34	6 %	6 %
35 - 39	5 %	5 %
40 - 44	5 %	5 %
45 - 49	4 %	4 %
50 - 54	3 %	3 %
55 - 59	0 %	0 %
60+	0 %	0 %

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	17,150,533	16,572,000
Fair value of plan assets	-	-
	17,150,533	16,572,000
Unrecognised transitional liability	-	-
Unrecognised past service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Miscellaneous item	-	-
Net liability	17,150,533	16,572,000

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	1,211,000	1,122,000
Interest cost	1,448,000	1,293,000
Actuarial losses / (gains)	(1,076,158)	481,770
	1,582,842	2,896,770

HISTORY OF LIABILITIES, ASSETS AND EXPERIENCE ADJUSTMENTS:

Present value of accrued liability and Fair value of plan assets

	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Present value of accrued liability	13,917,000	14,673,000	15,326,000	16,572,000	17,150,533
Fair value of plan assets	-	-	-	-	-
Surplus / (deficit)	(13,917,000)	(14,673,000)	(15,326,000)	(16,572,000)	(17,150,533)

Experience adjustments

Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred. The experience adjustments is as follows:

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18. Employee benefit obligations (continued)

	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Plan liabilities (gain) / loss	(58,000)	(46,000)	548,000	793,000	(1,308,326)
Plan assets gain / (loss)	-	-	-	-	-

Sensitivity Analysis:

The liability derived by this valuation is dependent on the assumptions set out, which may or may not be borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses and will be recognised by Mossel Bay Municipality in accordance with a consistently applied amortisation process.

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below:

	1% decrease	30 June 2019 Valuation basis R'000	1% increase
	R'000	R'000	R'000
Effect of a 1% change in the general earnings inflation rate	16,038	17,151	18,395
Effect of a 1% change in the discount rate	18,454	17,151	16,006

Mortality

The table that follow shows the impact of a change in the mortality assumption:

	decrease	30 June 2019 Valuation basis SA85-90 R'000	Increase
	R'000	R'000	R'000
Effect of a 2 year change in the average retirement age	14,711	17,151	19,371
Effect of a 50% reduction in the withdrawal rates	19,676	17,151	-

18.4 INFORMATION ABOUT THE MUNICIPALITY'S OTHER RETIREMENT FUNDS

The personnel of Mosselbay Municipality are members of the funds as set out below. These schemes are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below. Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:

- The assets of each fund are held in one portfolio; these assets are not notionally allocated to each of the participating employers.
- One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contributions applies to all participating employers, and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

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18. Employee benefit obligations (continued)

18.4.1 Consolidated Retirement Fund (previously Cape Joint Retirement Fund)

The most recent valuation for the Consolidated Retirement Fund was performed for the year ended 30 June 2017. As at the valuation date, the total value of net assets of the Fund was R21 417 million (2016: R20 119 million). After deducting the Risk Reserve Account of R 38.0 million and the Data Reserve Account of R 19.7 million, the combined assets of the Member Share Account, Processing Reserve Account, Preservation Pension Account and Pensions Account amounted to R 21 359 million as at 30 June 2017.

An effective investment return of 4.4% (2016: 8.1%) per annum was awarded for the Growth Portfolio.

The Fund provides the Protection Portfolio for members aged 50 years and older. The investment return for members who elected the Protection Portfolio amounted to 8.9% (2016: 7.1%) per annum.

Members over age 50 have the option of investing 25%, 50%, 75% or 100% of their Member's Share in the Moderate Portfolio. The investment return for members who elected the Moderate Portfolio amounted to 5.3% (2016: 6.9%) per annum.

The assets of the Pensioner Portfolio are invested to broadly match the term and nature of the pensioner liabilities. The return on the Pensioner Portfolio was 5.0% (2016: 7.4%) per annum.

A pension increase of 6.3% was granted to pensioners effective 01 March 2017 and 4.6% effective 01 March 2018. A 100% of monthly pension discretionary bonus was awarded, payable in December 2017 and in December 2018.

The funding level for the Member Share Account and Processing Reserve Account was 100.3% (2016: 100.5%), 100.0% (2016: 100%) for the Preservation Pension Account and 127.3% (2016: 118.0%) for the Pensions Account.

18.4.2 SALA Pension Fund

The SALA Pension Fund operates both as a defined benefit and defined contribution scheme. It is a multi-employer plan and the contribution rate payable is 9%, by the members and 18% by Council. The most recent valuation for the SALA Pension Fund was performed on 01 July 2018. The valuation revealed that as at the valuation date the total assets of the fund was R14.299 billion.

The total market value of the investments held by the Fund on the valuation date was R 14.561 billion.

The return earned on the assets backing the active members' liability averaged 7.14% per annum over the valuation period, whilst the return earned on the assets backing the pensioner liability averaged 7.21% per annum over the valuation period.

As at the valuation date, the fund is 96% funded. After an allowance for a contribution reserve the Fund has a deficit of R601.2 million and hence the value of the solvency reserve has reduced from R304.3 million to zero at the valuation date. The actuaries who performed the valuation regard the deficit as relatively small and attribute the drop in the funding level to short term fluctuations.

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18. Employee benefit obligations (continued)

18.4.3 Municipal Councillors' Pension Fund

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The statutory valuation performed as at 30 June 2015 revealed that the assets of the fund amounted to R2,551,861,000 (30 June 2014 : R2,229,410,000), with funding levels of 101.08% (30 June 2014: 98.83%).

The contribution rate paid by the members (13,75 %) and council (15 %) is sufficient to fund the benefits accruing from the fund in the future. The Actuary certified that the Fund was in a sound financial condition as at 30 June 2015, in that the assets of the fund were sufficient to cover the accrued service liabilities including the recommended contingency reserves in full.

The appointment of a Curator in terms of section 5(1) of the Financial Institutions (protection of funds) Act 2001 for the whole of the business of the Municipal Councillors Pension Fund was done in December 2017. Due to the provisional curatorship, a short moratorium has been placed on the payment of benefits to members/beneficiaries. In terms of the curatorship order, the Court ordered as follows: 1. The provisional Curatorship order of the 19th December 2017 is made a final; 2. The Curator shall furnish the Registrar of the Pension Fund with progress report; 3. The Curator must deliver a further progress report to the Court by no later than 31st October 2018 which report deals with the status of curatorship as at the 30th September 2018; on the curatorship once every two months. As at the financial year end, the process is still in progress.

18.4.4 Municipal Workers Retirement Fund (previously South African Municipal Workers Union National Provident Fund)

The Municipal Workers Retirement Fund is a defined contribution scheme. Members contribute at a rate of not less than 7.5% of salaries, as required by the Rules. The employers contribute at a total rate of not less than 18%.

The most recent valuation for the Municipal Workers Retirement Fund was performed for the year ended 30 June 2015. As at the valuation date, the fund showed an excess of R 41.783 million (corresponding to a funding level of 100.42%). The previous valuation as at 30 June 2014 revealed an excess of R 9.251 million (corresponding to a funding level of 100.10%).

The main reason for the improvement in the financial position was the cost deduction from July 2014 to April 2015. Over this period, the fund return was reduced by 0.06% per month and only reduced to 0.05% per month from May 2015 onward. This resulted in a total deduction of approximately R 69.1 million to cover investment fees not deducted directly off investment returns and expenses not directly deducted from the members' contributions, which totaled R 50.6 million over the valuation period resulting in a profit of R 18.5 million (or 0.18% of assets) over the valuation period.

The assets of the fund are sufficient to cover 100.42% of the members' liabilities as at 30 June 2015 and the fund was hence financially sound.

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18. Employee benefit obligations (continued)		
<u>18.5 OTHER CURRENT EMPLOYEE BENEFIT OBLIGATIONS:</u>		
<u>18.5.1 PERFORMANCE BONUS ACCRUAL</u>		
Performance bonuses accrue to employees on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due to staff as at the financial year end.		
The movement on the performance bonus accrual consist of the following:		
Balance at the beginning of the year	956,857	753,593
Contributions to provision	912,044	773,400
Expenditure incurred	(926,921)	(570,137)
	941,980	956,856
<u>18.5.2 STAFF LEAVE ACCRUAL</u>		
Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and the total remuneration package of the employee.		
The movement on the staff leave accrual consist of the following:		
Balance at the beginning of the year	14,691,333	14,227,038
Contributions to provision	706,104	1,286,953
Expenditure incurred	(1,230,583)	(822,661)
	14,166,854	14,691,330
<u>18.5.3 EMPLOYEE BONUS ACCRUAL</u>		
Annual bonuses accrue to employees on an annual basis, based on the employee contract. These accruals are an estimate of the amount due to staff as at the financial year end.		
The movement on the employee bonus accrual consist of the following:		
Balance at the beginning of the year	5,157,635	4,965,196
Contributions to provision	15,431,991	5,157,635
Expenditure incurred	(13,664,943)	(4,965,196)
	6,924,683	5,157,635
<u>18.5.4 EMPLOYEE OVERTIME / STANDBY ALLOWANCES</u>		
An accrual is done for the overtime / standby allowances that accrued to employees with regards to the financial year.		
The movement on the employee overtime / standby allowance accrual consist of the following:		
Balance at the beginning of the year	1,090,860	1,059,393
Contributions to provision	1,373,691	1,090,860
Expenditure incurred	(1,090,860)	(1,059,393)
	1,373,691	1,090,860

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19. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Contribution to provision / Finance cost	Utilised during the year	Total
Rehabilitation of Landfill sites	78,605,215	9,271,414	(589,246)	87,287,383
	78,605,215	9,271,414	(589,246)	87,287,383

Reconciliation of provisions - 2018

	Opening Balance	Contribution to provision / Finance cost	Utilised during the year	Change in discount factor	Total
Rehabilitation of Landfill sites	75,135,552	7,916,847	(5,458,178)	1,010,994	78,605,215
Non-current liabilities				84,550,833	76,089,339
Current liabilities				2,736,550	2,515,876
				87,287,383	78,605,215

Rehabilitation of Landfill sites

Provision is made in terms of the Municipality's licensing stipulations for the rehabilitation of landfill sites. It includes the closure activities of Buysplaas; D'Almeida; Fremiersheim; Great Brak; Herbertsdale and Louis Fourie landfill sites. The provision has been determined by consulting engineers. The payment dates for the total closure and rehabilitation are uncertain, but are expected to all be finalised by 2029.

20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

National Grants	246,329	211,816
Provincial Grants	22,579,810	36,292,723
District Municipality	-	-
Other unspent conditional receipts		
Public contributions	308,353	268,366
	23,134,492	36,772,905

Movement during the year

Opening balance	36,772,907	37,963,296
Receipts	152,657,315	171,078,824
Conditions met - Transferred to revenue	(166,295,730)	(172,269,215)
	23,134,492	36,772,905

The detailed movement per grant is as follows:

National: Equitable Share Grant

Opening balance	-	-
Receipts	85,858,000	78,472,000
Conditions met - Transferred to revenue	(85,858,000)	(78,472,000)
	-	-

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20. Unspent conditional grants and receipts (continued)

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

National: Finance Management Grant

Opening balance	-	-
Receipts	1,550,000	1,550,000
Conditions met - Transferred to revenue	(1,550,000)	(1,550,000)
	<u>-</u>	<u>-</u>

The Financial Management Grant is paid by National Treasury to municipalities to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

National: Municipal Infrastructure Grant

Opening balance	-	-
Receipts	23,688,000	24,464,000
Conditions met - Transferred to revenue	(23,688,000)	(24,464,000)
	<u>-</u>	<u>-</u>

The Municipal Infrastructure Grant is given to municipalities to provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

National: Integrated National Electrification Programme Grant

Receipts	6,000,000	8,000,000
Conditions met - Transferred to revenue	(6,000,000)	(8,000,000)
	<u>-</u>	<u>-</u>

The Integrated National Electrification Programme Grant is given to municipalities to implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings (including upgrade of informal settlements, new, and normalisation), and the installation of relevant bulk infrastructure.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

National: Extended Public Works Programme Incentive Grant

Opening balance	211,816	-
Receipts	2,125,184	2,291,000
Conditions met - Transferred to revenue	(2,337,000)	(2,079,184)
	<u>-</u>	<u>211,816</u>

The Expanded Public Works Programme Grant is incentive funding given to municipalities to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

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20. Unspent conditional grants and receipts (continued)

The 2017/18 year projects was completed during the prior year and the conditions met. The remaining balance of R 211 816 have thus been paid back to National Treasury during the current year under review

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

National: Water Services Infrastructure Grant

Receipts	4,000,000	-
Conditions met - Transferred to revenue	(3,753,671)	-
	246,329	-

The Water Services Infrastructure Grant is provided to facilitate the planning and implementation of water projects to enhance the sustainability of services especially in rural municipalities.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Integrated Housing and Human Settlement & Development Grant

Opening balance	34,576,453	37,721,174
Receipts	13,128,590	42,985,800
Conditions met - Transferred to revenue	(26,274,207)	(46,130,521)
	21,430,836	34,576,453

This grant is given to municipalities to provide funding for the creation of sustainable human settlements. The outcome of this grant is to provide top structures and basic social and economic amenities that contributes to the establishment of sustainable human settlements.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

The reason for the difference between the revenue recognised as per the Government grants and Subsidies received Note, and the conditions met as per the Unspent Grants Note, is due to expenditure and revenue on Housing projects where the Municipality act as an Agent, not being recognised as revenue.

Provincial: Community Development Workers Grant

Opening balance	-	-
Receipts	-	56,000
Conditions met - Transferred to revenue	-	(56,000)
	-	-

This grant is given to municipalities to provide financial assistance to municipalities to cover the operational and capital expenses iro the functions of the community development workers including the supervisors and regional organisers.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

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20. Unspent conditional grants and receipts (continued)

Provincial: Capacity Building Grant

Opening balance	-	-
Receipts	360,000	240,000
Conditions met - Transferred to revenue	(227,500)	(240,000)
	132,500	-

The Financial Management Capacity Building Grant is given to municipalities to develop financial human capacity within municipal areas to enable a sustainable local financial skills pipeline that is responsive to municipalities' requirements to enable sound and sustainable financial management and good financial governance.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Library Services Conditional Grant

Opening balance	-	9,998
Receipts	8,363,469	7,813,000
Conditions met - Transferred to revenue	(8,363,469)	(7,822,998)
	-	-

This grant is given to municipalities to transform urban and rural public library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through a recapitalised programme at provincial level in support of local government and national initiatives.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

The reason for the difference between the revenue recognised as per the Government grants and Subsidies received Note, and the conditions met as per the Unspent Grants Note, is due to the recognition of a subsidy received for Newspapers at libraries from the Provincial Department.

Provincial: Finance Management Support Grant

Opening balance	-	-
Receipts	1,280,000	280,000
Conditions met - Transferred to revenue	(673,038)	(280,000)
	606,962	-

This grant is given to municipalities to provide financial assistance to municipalities to improve overall financial governance within municipalities inclusive of optimising and administration of revenue, improving credibility and responsiveness of municipal budgets, improving of municipal audit outcomes and addressing institutional challenges.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Municipal Service Delivery & Capacity Building Grant

Opening balance	-	-
Receipts	200,000	-
	200,000	-

The Municipal Service Delivery and Capacity Building Grant is given to municipalities to provide financial assistance to municipalities to improve infrastructure, systems, structures corporate governance and service delivery.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

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20. Unspent conditional grants and receipts (continued)		
Provincial: Local Government Graduate Internship Grant		
Opening balance	47,260	39,769
Receipts	72,000	66,000
Conditions met - Transferred to revenue	(63,159)	(58,510)
	56,101	47,259
To provide financial assistance to municipalities in support of capacity building for the future by means of graduate internship programmes.		
Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.		
Provincial: Financial assistance to Municipality for Maintenance & Construction of Transport Infrastructure Grant		
Opening balance	-	-
Receipts	782,700	800,000
Conditions met - Transferred to Revenue	(629,289)	(800,000)
	153,411	-
This grant is given to financially assist/subsidise municipalities with the maintenance/construction of proclaimed municipal main roads, where the municipality is the Road Authority (Section 50 of Ordinance 19 of 1976).		
Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.		
Provincial: Fire Services Grant		
Opening balance	54	-
Receipts	(54)	800,000
Conditions met - Transferred to revenue	-	(799,946)
	-	54
This grant is given to support municipalities to establish and maintain functional and compliant Fire Services that is able to be measured against national benchmarks and standards.		
The project was completed during the prior year and the conditions met. The remaining balance of R 54 have thus been paid back to the Provincial Department during the current year under review.		
Provincial: Development of Sport and Recreation Facilities Grant		
Opening balance	5,150	-
Receipts	(5,150)	200,000
Conditions met - Transferred to revenue	-	(194,850)
	-	5,150
This grant is given to municipalities for the provision of sport and recreation facilities in especially previously disadvantaged communities.		
The project was completed during the prior year and the conditions met. The remaining balance of R 5 150 have thus been paid back to the Provincial Department during the current year under review.		
Provincial: RSEP/VPUU Grant		
Opening balance	825,198	-
Receipts	3,000,000	1,500,000
Conditions met - Transferred to revenue	(3,825,198)	(674,802)
	-	825,198

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20. Unspent conditional grants and receipts (continued)

This grant is to implement and enhance programmes to interact with stakeholders and empower communities to partner with government in implementing socioeconomic and urban upgrading programmes.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Shared Economic Infrastructure Facility

Opening balance	838,609	-
Receipts	1,610,299	838,609
Conditions met - Transferred to revenue	(2,448,908)	-
	-	838,609

This grant is to support businesses with an intention to improve access, create local economic benefits and optimise the performance of businesses operating in those facilities

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Public Contributions and Other Receipts

Opening balance	268,367	192,355
Receipts	644,277	722,415
Conditions met - Transferred to revenue	(604,291)	(646,404)
	308,353	268,366

Mossel Bay Municipality received various public contributions. The current year contributions include funds received for the Mayoral Cup, the Mayoral Golf Day and the Relief Charitable Fund.

21. Consumer deposits

Electricity	15,306,686	14,691,910
Water	11,979,869	10,932,315
	27,286,555	25,624,225

No Guarantees are held in lieu of electricity and water. No interest accrues on consumer deposits.

22. Payables from exchange transactions

Trade payables	101,281,857	66,927,421
Payments received in advanced	31,302,707	28,905,228
Accrued expenditure	67,715	80,321
Retentions	10,762,668	10,401,799
Other payables	6,059,130	3,290,179
Other deposits	4,770,675	4,232,337
	154,244,752	113,837,285

The fair value of trade and other payables approximates their carrying amounts. Trade and other payables are normally settled on 30 day terms in accordance with the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice/statement. Thereafter interest is charged in accordance with the credit policies of the various individual creditors.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
23. Non-current deposits		
Santos Pavillion Repair Fund		
Balance at beginning of year	286,755	274,541
Interest on investment	12,396	12,214
	299,151	286,755

This fund was created after the Pavilion burnt down a number of years ago. An entrepreneur restored the pavilion to its original form in exchange for a 93-year lease at a reasonable rent. It was also a condition that he should make available an amount of R100 000 to Council as an investment. Interest earned may be used by Council for the maintenance of the building, should he fail to do it himself.

24. Self-insurance reserve

Contribution from Operating account and other contributions	64,285,928	-
	64,285,928	-

The Self-insurance Reserve is fully funded and invested in financial instruments.

25. Capital replacement reserve

Balance at the beginning of the year	138,849,300	141,173,950
Contributions from Operating account and other contributions	77,978,064	90,431,679
External Services contribution	7,003,888	6,793,014
Land Sales contribution	4,520,319	3,304,106
Funding Capital Projects	(82,409,488)	(102,853,450)
	145,942,083	138,849,299

The Capital Replacement Reserve is fully funded and invested in financial instruments.

26. Housing Development Fund

Balance at the beginning of the year	-	28,417
Income from land sales	-	11,153
Funding Operating Projects	-	(39,570)
	-	-

27. Service charges

Sale of electricity	414,809,232	386,042,428
Sale of water	109,236,912	114,435,072
Refuse removal	53,357,568	44,291,455
Sewerage and sanitation charges	61,730,200	57,241,400
	639,133,912	602,010,355

The service charges revenue are in respect of services rendered to consumers and billed in terms of Council's approved tariffs. These service charges revenue are the net amounts after taking into account revenue foregone.

28. Rent of facilities and equipment

Premises	4,976,896	4,468,064
Facilities and equipment	677,990	610,933
	5,654,886	5,078,997

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
29. Interest received - external investments		
Interest revenue		
Current bank account	2,207,072	2,359,331
Long-term investments	4,471,302	3,194,287
Short-term investments	36,021,664	33,049,211
	42,700,038	38,602,829
	-	-
	42,700,038	38,602,829
30. Other income		
Administrative Handling Fees	2,126,343	1,475,678
Bad Debts Recovered	-	1,533,484
Building Plan Approval Fees	8,196,447	7,674,208
Camping Fees	4,182,323	4,094,435
Cemetery and Burial Fees	367,546	192,342
CID Income	615,064	551,052
Clearance Application	329,892	367,166
Collection Charges	3,358,196	2,771,044
Development Charges	7,003,888	6,793,014
Fire Services	1,026,212	625,198
Insurance Refunds	2,002,733	1,634,424
Land Usage Fees	1,587,712	1,790,891
Other	2,123,540	1,722,749
Sale of Property	710,794	4,060,812
Sale of Redundant Inventory	516,359	528,284
	34,147,049	35,814,781

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
31. Property rates		
Rates received		
Residential	100,198,775	89,998,168
Commercial	25,973,438	24,007,925
State	643,728	501,283
Agricultural	2,535,197	2,311,282
Assessment Rate: Letting	1,298	1,298
Less: Income forgone	(6,826,727)	(5,846,959)
	122,525,709	110,972,997
Valuations		
Residential	34,126,676,434	33,252,507,559
Commercial	4,366,772,250	4,330,992,250
State	860,447,000	719,394,000
Municipal	776,722,900	721,290,900
Public Services Infrastructure	47,989,000	46,476,000
Public Open Space	3,836,093	3,623,093
Protected Area	12,337,000	8,316,000
Churches	290,078,000	285,343,000
Agricultural	3,431,457,125	3,465,031,125
	43,916,315,802	42,832,973,927

The valuation of land takes place every four years in terms of the Municipal Property Rates Act, No.6 of 2004. The basic rate for land and buildings ranged between R0,000772 and R0,006551 respectively. Qualifying pensioners received an additional rebate of either 50% or 30% on property tax. With regard to needy families, where the joint income of husband and wife amounted to less than R5 000 a rebate was allowed with regard to water, refuse and sewerage. Regarding the housing schemes, it is noted that income for rates was not based on valuation as the values are less than R50 000. The first R50 000 of residential properties are not levied, R15 000 are impermissible rates and a rebate are given on R35 000.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
32. Government grants & subsidies received		
Operating grants		
Equitable share	85,858,001	78,422,856
National Government: Financial Management Grant	1,550,000	1,550,000
National Government: Expanded Public Works Programme Integrated Grant	1,346,297	2,079,184
Provincial Government: Capacity Building	621,020	240,000
Provincial Government: Library Service Conditional Grant	8,397,827	7,818,271
Provincial Government: Human Settlement Development Grant	16,017,889	34,182,896
Provincial Government: Community Development Workers Grant	-	56,000
Provincial Government: Financial Management Support Grant	673,038	280,000
Provincial Government: Local Government Graduate Internship Grant	63,159	58,510
Provincial Government: Financial assistance to Municipality for Maintenance & Construction of Transport Infrastructure Grant	-	800,000
National Departmental Agencies - Education, Training and Development Practices SETA Grant	398,944	585,790
Provincial Government: Housing Emergency Kits	84,591	93,019
	115,010,766	126,166,526
Capital grants		
National Government: Municipal Infrastructure Grant	23,688,000	24,464,000
National Government: Integrated National Electrification Programme	6,000,000	8,000,000
National Government: Expanded Public Works Programme Integrated Grant	990,703	-
Provincial Government: Human Settlement Development Grant	5,523,576	3,766,711
Provincial Government: Library Service Grant	-	9,998
Provincial Government: RSEP / VPUU	3,825,198	674,802
Provincial Government: Fire Services Grant	-	799,946
Provincial Government: Development of Sport and Recreation Facilities Grant	-	194,850
National Government: Water Services Infrastructure Grant	3,753,671	-
Provincial Government: Financial assistance to Municipality for Maintenance & Construction of Transport Infrastructure Grant	629,289	-
National Government - Shared Economic Infrastructure Facility Grant	2,448,908	-
	46,859,345	37,910,307
Total Operating and Capital grants	161,870,111	164,076,833
Library Grant: The reason for the difference between the revenue recognised as per the Government grants and Subsidies received Note, and the conditions met as per the Unspent Grants Note, is due to the recognition of a subsidy received for Newspapers at libraries from the Provincial Department.		
Housing Grant: The reason for the difference between the revenue recognised as per the Government grants and Subsidies received Note, and the conditions met as per the Unspent Grants Note, is due to expenditure and revenue on Housing projects where the Municipality act as an Agent, not being recognised as revenue.		
Government Grants and Subsidies received per vote		
Municipal Manager	8,135,159	11,095,518
Corporate Services	7,702,541	2,272,192
Financial Services	2,223,038	1,830,000
Technical Services	84,469,341	64,750,904
Community Services	31,170,884	32,487,322
Development & Planning	28,169,147	51,640,897
	161,870,110	164,076,833

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
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	2019	2018
	R	R
32. Government grants & subsidies received (continued)		
33. Public contributions and donations		
Donated assets	19,327,936	407,324
Public corporations	1,200,051	2,074,546
	20,527,987	2,481,870
34. Fines, Penalties and Forfeits		
Traffic fines	12,826,251	12,686,552
Tender withdrawal penalties	1,355,939	-
Property rates penalties	281,454	49,820
Illegal connection fines	105,665	172,273
Forfeits	958,498	457,786
Other fines, penalties and forfeits	387,564	292,957
	15,915,371	13,659,388

Other fines, penalties and forfeits includes Pound fees, Library penalties and Tender Fines.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
35. Employee related costs		
Employee related costs - Salaries, Wages & Bonuses	180,288,888	166,110,161
Employee related costs - Contributions to UIF, Medical & Pension Funds	47,822,841	44,447,237
Acting allowances	979,308	540,703
Housing benefits and allowances	1,612,144	1,701,394
Overtime payments	12,047,897	10,147,794
Standby allowance	3,838,320	3,440,883
Travel, motor car, accommodation, subsistence & other allowances	9,218,668	8,734,205
Contributions to Post Retirement Benefits Provision	9,911,017	10,766,000
Contributions to Long Service Bonus Provision	2,659,000	2,415,000
Contributions to Leave Gratuity Provision	706,104	1,132,992
Actuarial losses / (gains) on Employee Benefit Provisions	21,503,079	7,426,868
Less: Employee costs capitalised to PPE	(1,744,270)	(1,728,154)
Total employee related costs excluding key management positions	288,842,996	255,135,083

The remuneration of key management positions consists of the following:

Municipal Manager

Annual remuneration	1,009,465	890,874
Performance bonuses	183,828	174,410
Car allowance	120,000	120,000
Contributions to UIF, Medical and Pension Funds	183,488	162,142
Industrial council	105	99
	1,496,886	1,347,525

Chief Finance Officer

Annual remuneration	828,658	836,429
Performance bonuses	130,557	20,645
Acting allowance	7,271	-
Car allowance	102,000	81,048
Contributions to UIF, Medical and Pension Funds	1,785	34,097
Leave payout	-	153,961
Industrial council	105	91
	1,070,376	1,126,271

Remuneration of individual executive director positions:

Director Planning and Development

Annual Remuneration	1,072,164	1,022,282
Performance Bonuses	119,075	113,915
Acting allowance	-	12,131
Car Allowance	108,000	108,000
Contributions to UIF, Medical and Pension Funds	248,744	237,145
Industrial council	105	99
	1,548,088	1,493,572

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Notes to the Annual Financial Statements

	2019 R	2018 R
35. Employee related costs (continued)		
Executive Official Strategic Services		
Annual Remuneration	702,253	653,795
Performance Bonuses	130,557	123,868
Acting allowance	3,338	3,915
Car Allowance	102,000	102,000
Contributions to UIF, Medical and Pension Funds	161,939	120,903
Industrial council	105	99
	1,100,192	1,004,580
Director Corporate Services		
Annual Remuneration	1,130,910	1,038,325
Performance Bonuses	118,575	110,818
Acting allowance	121,077	9,987
Car Allowance	120,000	120,000
Contributions to UIF, Medical and Pension Funds	167,128	157,084
Group insurance	5,328	5,328
Industrial council	105	99
	1,663,123	1,441,641
Director Technical and Electricity Services		
Annual Remuneration	1,367,060	1,270,412
Performance Bonuses	143,719	134,317
Car Allowance	102,000	102,000
Contributions to UIF, Medical and Pension Funds	249,672	233,455
Group insurance	6,480	6,480
Industrial council	105	99
	1,869,036	1,746,763
Director Community Services		
Annual Remuneration	969,806	842,650
Performance Bonuses	115,669	95,428
Acting allowance	10,031	-
Car Allowance	120,000	120,000
Contributions to UIF, Medical and Pension Funds	208,109	182,849
Industrial council	105	99
	1,423,720	1,241,026
Total employee related costs		
Employee costs - municipal staff	289,048,397	255,315,077
Employee costs - senior managers & municipal manager	9,966,019	9,221,384
	299,014,416	264,536,461

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
36. Remuneration of councillors		
Executive Major	787,573	758,852
Deputy Executive Mayor	703,000	677,531
Mayoral Committee Members	3,065,934	2,955,366
Speaker	685,720	660,251
Councillors	5,520,693	5,257,473
Councillors' Pension Contributions	569,840	502,083
Councillors' Medical Aid Contributions	150,578	129,742
	11,483,338	10,941,298

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are employed on a full-time basis. Each is provided with an office and administrative secretarial support at the cost of the Council.

The Mayor and the Deputy Mayor have access to council-owned vehicles for ceremonial and official functions.

Full-time Councillors are equipped with computers. Ward Committee members are equipped with cell phones for communication purposes.

37. Depreciation and amortisation

Depreciation

Property, plant and equipment	75,252,758	68,568,690
Investment property	911,939	869,951

Amortisation

Intangible assets	126,583	130,649
	76,291,280	69,569,290

The depreciation charge for the year i.r.o. the Water Treatment Plant is reallocated to water inventory consumed.

38. Debt impairment

Debt impairment	5,676,404	6,231,289
Reversal of debt impairment	(9,318,744)	(37,527,238)
Bad debts written off	18,244,993	48,749,591
	14,602,653	17,453,642

39. Finance costs

Other financial liabilities	3,253,533	3,119,528
Finance leases	838	11,558
Landfill Sites (Provisions)	3,403,511	7,916,847
Current deposits / Grants	127,163	12,214
	6,785,045	11,060,147

40. Bulk purchases

Electricity	292,284,876	267,744,119
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Bulk purchases are the cost of commodities not generated by the Municipality, but which the Municipality distributes to consumers. The Municipality purchases electricity in bulk from Eskom and then redistributes it to consumers.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
41. Contracted services		
Consultants and Professional Services		
Business and Advisory	1,873,358	2,029,877
Infrastructure and Planning	4,972,958	4,503,194
Legal cost	3,391,290	2,269,682
Other	74,073	209,869
Contractors		
Maintenance of buildings and facilities	6,167,634	5,362,928
Maintenance of unspecified assets	32,306,894	29,266,867
Prepaid electricity vendors	3,246,485	3,001,163
Safeguard and security	5,246,952	4,649,347
Sewerage services	2,182,336	2,849,816
Tracing agents and debt collectors	4,442,803	3,586,934
Other	5,802,378	5,485,667
Outsourced Services		
Administrative and Support staff	2,697,254	2,434,896
Alien vegetation control	2,348,254	1,676,025
Business and Advisory	4,114,287	3,827,077
Cleaning services	5,688,608	2,117,310
Clearing and Grass cutting services	14,713,433	11,785,526
Internal auditors	1,535,019	1,331,753
Meter management	2,124,415	1,243,321
Refuse removal	6,582,661	5,092,810
Swimming supervision	1,742,495	1,521,860
Other	4,159,151	3,140,401
	115,412,738	97,386,323
Contracted services was previously disclosed broken down to the fourth level of the mSCOA chart, due to the expansion of the Note, the disclosure was amended to the third level of the mSCOA chart.		
42. Transfers and subsidies paid		
Bursary Scheme	227,500	240,000
Donated Assets	-	66,772
Other	577,456	617,150
SPCA	1,052,000	1,000,000
Subsidy: Benefit Discount Scheme	226,443	240,049
Tourism	4,001,612	2,118,165
	6,085,011	4,282,136
<u>Other Donations:</u>		
During 2018/19 Other Donations were made to the amount of R176 510, whereas an amount of R300 000 was donated during 2017/18. Of the R176 510 Other Donations, R 6 510 was donated to the Mossel Bay Care Centre, R 30 000 to Genesis community projects, R 10 000 Child Welfare SA, R50 000 Kindersorg SA, R40 000 Heart to Heart Care centre and R40 000 to the Piet Julies Action Group.		
43. Inventory consumed		
Consumables	14,605,408	11,862,433
Material and supplies	20,345,571	17,834,554
Housing stock	22,584,347	11,486,242
Land	788,852	1,929,054
Water	32,344,225	33,701,991
	90,668,403	76,814,274

Mossel Bay Municipality
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Notes to the Annual Financial Statements

	2019 R	2018 R
44. General expenses		
Advertising, Publicity and Marketing	1,800,295	1,508,864
Auditors remuneration	4,818,279	4,247,093
Bank charges	2,039,218	1,832,329
Commission paid	6,895,356	6,308,306
Contribution to Provisions for Landfill site rehabilitation	300,609	-
Dumping Fees (District Council)	5,227,002	5,072,210
External Computer Service	7,368,892	8,285,268
Insurance	4,488,274	5,882,176
Lease rentals on operating lease	4,501,596	5,187,733
Motor Vehicle Licence and Registrations	553,685	423,501
Municipal expenses	2,177,870	2,062,487
Other expenses	2,921,043	3,271,465
Postage and courier	913,272	932,254
Printing, Publications and Books	152,992	278,305
Skills Development Fund Levy	2,372,010	2,185,097
Subscriptions and membership fees	3,068,159	2,788,926
Telephone and fax	1,053,237	1,066,127
Title deed search fees	220,866	249,485
Travel and Subsistence	1,281,397	1,148,228
Workmen's Compensation Fund	1,363,062	1,526,170
	53,517,114	54,256,024
45. Cash generated from operations		
Surplus	83,315,959	101,062,506
Adjustments for:		
Depreciation and amortisation	76,291,279	69,569,293
Depreciation and amortisation - Water Treatment Plants	1,686,785	3,054,374
Gain and Loss on sale of assets and liabilities	2,982,117	6,591,297
Investment Income - external investments	(4,471,302)	(3,194,287)
Finance costs	6,785,045	11,060,147
Impairment of Assets / Reversal of impairment	(70,058)	76,167
Debt impairment / Reversal of impairment	(3,642,340)	(31,295,949)
Bad debts written off	18,244,993	48,749,591
Movements in operating lease assets and accruals	29,151	169,306
Movements in retirement benefit assets and liabilities / Provisions	12,085,083	1,380,445
Movements in provisions	300,609	-
Actuarial loss / (gain)	21,503,079	7,426,868
Donated Assets	(19,327,936)	(407,324)
Unamortised Discount	(325,969)	(62,904)
Sale of Redundant inventory	(516,359)	(528,284)
Asset transfers made and received	0	7,766
Changes in working capital:		
Inventories	2,869,326	(27,296,169)
Receivables from exchange transactions	(18,656,720)	(17,833,545)
Other receivables from non-exchange transactions	(8,931,046)	(10,438,681)
Payables from exchange transactions	40,407,459	(1,859,826)
VAT	1,183,591	(2,825,215)
Unspent conditional grants and receipts	(13,638,413)	(1,190,393)
	198,104,334	152,215,184

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R		
46. Prior period errors and reclassifications				
STATEMENT OF FINANCIAL POSITION	2018 previously reported	Reclassifi- cations	Prior period errors / Change in Accounting policy	2018 restated
ASSETS				
Current Assets				
Inventories	49,658,368	-	(578,049)	49,080,319
Long term receivables	477,942	-	-	477,942
Operating lease asset	196,907	-	-	196,907
Receivables from exchange transactions	72,666,300	-	(466,395)	72,199,905
Receivables from non-exchange transactions	19,299,054	654	-	19,299,708
VAT receivable	10,896,467	-	-	10,896,467
Short term investments	411,899,411	-	-	411,899,411
Cash and cash equivalents	14,349,526	-	-	14,349,526
	579,443,975	654	(1,044,444)	578,400,185
Non-current Assets				
Property, plant and equipment	2,048,900,460	-	(40,334,792)	2,008,565,668
Investment property	593,222,526	-	3,662,904	596,885,430
Intangible assets	593,708	-	-	593,708
Heritage assets	4,225,599	-	-	4,225,599
Long term receivables	354,732	(654)	-	354,078
Investments	36,000,000	-	-	36,000,000
	2,683,297,025	(654)	(36,671,888)	2,646,624,483
TOTAL ASSETS	3,262,741,000	-	(37,716,332)	3,225,024,668
LIABILITIES				
Current Liabilities				
Other financial liabilities	3,236,143	-	-	3,236,143
Finance lease obligations	12,944	-	-	12,944
Employee benefit obligations	27,856,681	-	-	27,856,681
Provisions	2,515,876	-	-	2,515,876
Operating lease liability	1,845,156	-	-	1,845,156
Unspent conditional grants and receipts	36,772,905	-	-	36,772,905
Consumer deposits	25,624,225	-	-	25,624,225
Payables from exchange transactions	113,837,286	-	-	113,837,286
	211,701,216	-	-	211,701,216
Non-current Liabilities				
Other financial liabilities	30,651,228	-	-	30,651,228
Finance lease obligation	5,933	-	-	5,933
Employee benefits	102,716,000	-	-	102,716,000
Provisions	76,089,339	-	-	76,089,339
Non-current deposits	286,755	-	-	286,755
	209,749,255	-	-	209,749,255
TOTAL LIABILITIES	421,450,471	-	-	421,450,471
TOTAL NET ASSETS	2,841,290,529	-	(37,716,332)	2,803,574,197

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

			2019 R	2018 R
46. Prior period errors and reclassifications (continued)				
NET ASSETS				
Capital replacement reserve	138,849,299	-	-	138,849,299
Accumulated surplus	2,702,441,230	-	(37,716,332)	2,664,724,898
	2,841,290,529	-	(37,716,332)	2,803,574,197
STATEMENT OF FINANCIAL PERFORMANCE				
	2018 previously reported	Reclassifi- cations	Prior period errors	2018 restated
Revenue from exchange transactions				
REVENUE				
Service charges	602,001,682	8,672	-	602,010,354
Rental of facilities and equipment	5,078,997	-	-	5,078,997
Agency services	6,052,555	-	-	6,052,555
Interest received - outstanding debtors	1,722,677	-	-	1,722,677
Interest received - external investments	38,602,829	-	-	38,602,829
Other income	35,263,729	551,052	-	35,814,781
Revenue from non-exchange transactions				
Taxation revenue				
Property rates	111,524,049	(551,052)	-	110,972,997
Licences and permits	1,300,402	-	-	1,300,402
Transfer revenue				
Government grants and subsidies	164,085,506	(8,672)	-	164,076,834
Public contributions and donations	2,481,870	-	-	2,481,870
Fines, Penalties and Forfeits	13,659,388	-	-	13,659,388
	981,773,684	-	-	981,773,684

Mossel Bay Municipality
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Notes to the Annual Financial Statements

	2019 R	2018 R		
46. Prior period errors and reclassifications (continued)				
	2018 previously reported	Reclassifi- cations	Prior period errors / Change in accounting policy	2018 restated
EXPENDITURE				
Employee related cost	264,536,461	-	-	264,536,461
Remuneration of councillors	10,941,298	-	-	10,941,298
Depreciation & amortisation	67,365,884	-	2,203,409	69,569,293
Impairment loss / Reversal of impairments	76,167	-	-	76,167
Debt Impairment / Bad debts written off	17,453,642	-	-	17,453,642
Finance cost	11,060,147	-	-	11,060,147
Bulk purchases	267,744,119	-	-	267,744,119
Contracted services	97,222,116	130	164,078	97,386,324
Transfers and subsidies paid	4,282,136	-	-	4,282,136
Loss on disposal of assets and liabilities	1,021,576	-	152,644	1,174,220
Inventories losses / write-downs	5,417,077	-	-	5,417,077
Inventory consumed	76,813,674	(130)	729	76,814,273
General Expenses	54,256,022	-	-	54,256,022
	878,190,319	-	2,520,860	880,711,179
SURPLUS / (DEFICIT) FOR THE YEAR	103,583,365	-	(2,520,860)	101,062,505
CASH FLOW STATEMENT				
	2018 previously reported	Reclassifi- cations	Prior period errors / Change in accounting policy	2018 restated
Net cash from operating activities	152,380,638	-	(165,454)	152,215,184
Net cash from investing activities	(191,378,743)	-	165,454	(191,213,289)
Net cash from financing activities	1,814,404	-	-	1,814,404
Total cash movement for the year	(37,183,701)	-	-	(37,183,701)
Cash and cash equivalents at the beginning of the year	51,533,227	-	-	51,533,227
	14,349,526	-	-	14,349,526

The reclassifications and correction of the error(s) are as follows:

46.1 Reclassifications

Short-code 9/578-464-71072 with a prior period balance of R 8 672 previously mapped as Government grants and subsidies received, was reclassified as Water Service Charges.

Short code 9/563-162-16724 for Outsourced Catering Services, with a prior period balance of R 130, was previously mapped as Inventory consumed and reclassified as Contracted Services.

Vote 729587023895 the receipt portion of the Ext 13 - s10 housing selling scheme with a prior period balance of R 654, was previously mapped as a Receivable from non-exchange transactions and has been reclassified as a long-term receivable repayment in respect of the housing selling scheme.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
Notes to the Annual Financial Statements

	2019 R	2018 R
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46. Prior period errors and reclassifications (continued)

The CID income was with a prior period balance of R 551 052 previously mapped as Taxation Revenue - Property Rates, was reclassified as Other Income as this is an exchange revenue source.

Affected line items	2018
Service charges	8,672
Government grants and subsidies received	(8,672)
Contracted services	130
Inventory consumed	(130)
Long term receivables	(654)
Receivables from non-exchange transactions	654
Other Income	551,052
Property Rates	(551,052)
	<u>-</u>

46.2 Correction of Error 1 - Fire Brigade fees reversal

An account for Eden District municipality was incorrectly raised for Firecall BR623/16 in June 2017. The debtor control account and accumulated surplus is hereby corrected.

Affected line items	2018
Receivables from exchange transactions	(466,395)
Accumulated surplus - 2017 and prior	466,395
	<u>-</u>

46.3 Correction of Error 2 - First time recognition and disposal of Assets

It was discovered that the completeness of the land and buildings were suspect, based on completeness. The alienation contracts have been monitored and discovered that some erven were not in the assets register, whilst other had been partly disposed or in total. Cost adjustments were based on deemed cost and the depreciation was recalculated, where applicable. The accounting entries of this correction were as follow:

Affected line items	2018
Property, plant and equipment	(13,677,838)
Investment Property	(4,783,415)
Inventory	(578,049)
Accumulated surplus - 2018	82,355
Accumulated surplus - 2017 and prior	(19,121,657)
Depreciation and amortisation	(82,355)
	<u>(38,160,959)</u>

46.4 Correction of Error 3 - Asset classification change

Since inception of GRAP, site 225/8 was incorrectly classified as part of Land used for Roads whilst it should have been classified as undeveloped Investment Property and last year the opening balaces were adjusted incorrectly. The accounting entries of this correction were as follow:

Affected line items	2018
Property, plant and equipment	(7,958,934)
Investment Property	7,958,934
	<u>-</u>

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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46. Prior period errors and reclassifications (continued)

46.5 Correction of Error 4 - Finalisation of under construction assets

With the finalization of under construction assets it was discovered that the date of completion refers to prior and previous year. The result is additions, further unbundling, disposal and derecognition of non capital expenditure was corrected. The accounting entries of this correction were as follow:

Affected line items	2018
Property, plant and equipment	(18,698,020)
Investment Property	487,385
Accumulated surplus - 2018	(2,603,215)
Accumulated surplus - 2017 and prior	(15,607,420)
Depreciation and amortisation	2,285,764
Contracted services	164,078
Loss on disposal of assets and liabilities	152,644
Inventory consumed	729
	(33,818,055)

47. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year.

48. Change in accounting estimates

Change in Useful lives

The Municipality has reassessed the useful lives of Property, plant and equipment and Intangible assets and residual values of Property, plant and equipment which resulted in changes in depreciation and amortisation charges. The effect of the change in accounting estimate has resulted in the following movements for the current and future periods on the affected capital assets:

Movement in depreciation and amortisation	2019	2020	2021	2022
Before change in estimate	5,414,677	3,890,358	1,753,892	398,815
After change in estimate	4,040,750	4,045,730	3,916,311	700,499
Net effect (Decrease) / Increased charges	(1,373,927)	155,372	2,162,419	301,684

49. Comparison with budget

Reconciliation of budget surplus / (deficit) with the surplus / (deficit) in the Statement of Financial Performance:	2019 R
Net surplus / (deficit) per the statement of financial performance	83,315,959
Net surplus / (deficit) as per approved budget	28,888,558
Variance to be explained (refer to Statement of Comparison of Budget and Actual amounts for detail)	(54,427,401)

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2018 to 30 June 2019. The budget information is therefore on a comparable basis to the actual amounts.

Mossel Bay Municipality
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Notes to the Annual Financial Statements

	2019 R	2018 R
49. Comparison with budget (continued)		
Expenditure per VOTE: OPERATIONAL	Budget:	Actuals:
Municipal Manager & Executive Council	52,715,432	49,511,276
Corporate Services	72,536,344	82,873,716
Financial Services	55,458,146	47,905,001
Technical & Electrical Services	489,197,826	473,550,644
Community Services	210,697,524	194,203,814
Planning & Integrated Services	155,155,371	123,713,508
	1,035,760,643	971,757,959
		64,002,684

Detail of Material Variances:

Municipal Manager & Executive Council: The underspending was mainly due to savings on consultant fees and depreciation for the year under review.

Corporate Services: The overspending was due to a R22m actuarial loss recognised for the year. Further detail on this loss is disclosed in Note 18.

Financial Services: The underspending was mainly due to savings on contracted services and debt impairment that did not realise due to better collection rate on property rates.

Technical & Electrical Services: The underspending was due to the fact that budgeted water treatment plant expenses were transferred to inventory costs on the Statement of Financial Position as well as fewer debt impairment costs.

Community Services: The underspending is mainly due to the provision to debt impairment that was not necessary due to better collection of fines and refuse removal charges.

Planning & Integrated Services: The underspending is due to the underspending on housing topstructure projects. A request for the roll-over of these grant funds was sent to the Provincial Department in order to spend these funds in the new financial year.

Expenditure per VOTE: CAPITAL	Budget:	Actual:	Variance:
	R	R	R
Municipal Manager & Executive Council	5,815,762	2,893,811	2,921,951
Corporate Services	9,700,428	9,278,378	422,050
Financial Services	1,315,000	1,006,199	308,801
Technical & Electrical Services	86,932,204	81,200,725	5,731,479
Community Services	21,131,293	22,730,437	(1,599,144)
Planning & Integrated Services	80,853,359	50,003,810	30,849,549
	205,748,046	167,113,360	38,634,686

Detail of Material Variances:

Corporate Services: The underspending is due to the Thusong Centre project. The project will continue in 2019/20 financial year as an application for the roll-over of funds has been requested.

Community Services: The overspending is due to the increased restoration costs of the landfill site.

Planning & Integrated Services: The major underspending is due to the housing projects. Sonskynvallei Project: Re-invention of tenders delayed the project. Informal Settlement Project: Tenders came in excess of the available quantum. Tenders will be re-advertised. Asazani Project: The top structure contractor is on site and will utilise the services funding platforms and retaining wall.

Mossel Bay Municipality
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Notes to the Annual Financial Statements

	2019 R	2018 R
50. Utilisation of Long-term liabilities reconciliation		
Long-term liabilities raised (Refer note 16)	30,830,781	33,887,371
Finance lease obligation (Refer note 17)	5,933	18,877
Used to finance property, plant and equipment	(30,836,714)	(33,906,248)
	-	-

Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date (See Note 10).

51. Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	-	4,560,182
Unauthorised expenditure current year	11,936,516	800,370
Approved by council or condoned	-	(4,560,182)
Transfer to receivables for recovery - not condoned	-	-
Unauthorised expenditure awaiting authorisation	11,936,516	800,370

The overspending of R1 599 144 under the Community Services vote in the 2018/19 year and R800 370 in 2017/18 year is due to the recognition of Landfill site asset as per the report by management expert on the Provision for the Rehabilitation of Landfill sites. The increase in the asset is due to the increase in the supply and installment rate for the cusped sheets per square meter, these materials are imported.

The overspending of R10 337 372 under the Corporate Services Directorate was due to a R22m actuarial loss recognised for the year. Further detail on this loss is disclosed in Note 18.

The current year over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	11,936,516	800,370
Non-cash analysed as follows:		
Employee Related Costs (Actuarial Valuations)	10,337,372	-
Capital additions - Landfill site provision asset	1,599,144	800,370
	11,936,516	800,370

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	2019 R	2018 R
52. Irregular expenditure		
Reconciliation of irregular expenditure		
Opening balance	22,445,925	53,489
Irregular expenditure current year	610,940	22,392,436
Condoned or written off by Council	(478,311)	-
Recovered	-	-
Subsequent found not to be irregular	(60,536)	-
To be recovered - contingent asset	-	-
Adjustment of prior year disclosure	1,782,244	-
Irregular expenditure awaiting condonement	24,300,262	22,445,925

2019

Incident

Irregular Expenditure to the amount of R610 940 for the 2018/19 was identified after a deviation and extension of the services Neorick Software Solutions that provides software that assists in the maintenance of the Valuation Roll and Property Register

Due to Unclear /Vague reasons for deviations during the 2017/18 financial year an amount of R60 536 was found not to be irregular and R95 488 was written off as irrecoverable.

During the 2017/18 Financial year the Auditor General concluded that splitting of an order constitutes irregular expenditure to the value of R 294 699, although the repairs made was caused by two separate incidents of storm damage to two different beaches staircases. This irregular expenditure was written off as irrecoverable.

During the 2017/18 financial year the Auditor General concluded that the misallocation of costs on invoice 730INV0001929 by Mubeko Africa cc constitute irregular expenditure to the value of R 34 635. This irregular expenditure was written off as irrecoverable.

During the 2016/17 financial year no extension of Contract approved for Tender 30-16/17. Amount of R11 090.40 overspent on contract amount. This irregular expenditure was written off as irrecoverable

During the 2016/17 financial year the Design and Print of Calendars and T-Shirts to the amount of R30 559.98 and R11 838.60 respectively was found irregular. This irregular expenditure was written off as irrecoverable

Irregular Expenditure was identified after a deviation and extension of the services Neorick Software Solutions that provides software that assists in the maintenance of the Valuation Roll and Property Register. Adjustment of prior year disclosures amount to R1 782 245.

2018

Incident

Unclear /Vague reasons for deviations during the financial year was identified by the Municipality to the value of R 156 024.

The Auditor General identified and concluded that procurement that did not comply with local production and content requirements for the 2017/2018 and that it constitutes irregular expenditure to the value of R 2 336 534.

Disciplinary steps/criminal proceedings

Item was withdrawn on 29 August 2019 by Management from Council Agenda and referred back to the Disciplinary board for further verification and quantification of amounts Investigated by Disciplinary board Committee and referred back to Disciplinary board Committee for further verification and quantification of amounts.

Disciplinary steps/criminal proceedings

Was reported to the Accounting Officer and is taken to the Disciplinary Board Committee for investigation.

To be reported to Accounting Officer and Disciplinary board Committee for further investigation.

Mossel Bay Municipality
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Notes to the Annual Financial Statements

	2019 R	2018 R
52. Irregular expenditure (continued)		
The Municipality revisited the whole population for compliance with local production and content requirements and identified possible additional irregular expenditure to the value of R 12 779 179.		To be reported to Accounting Officer and Disciplinary board Committee for further investigation.
The Auditor General identified and concluded that the non-compliance with awarding of the B-BBEE points as a result of sub contracting constitutes irregular expenditure to the value of R 6 791 365.		To be reported to Accounting Officer and Disciplinary board Committee for further investigation.
The Auditor General concluded that splitting of an order constitutes irregular expenditure to the value of R 294 699, although the repairs made was caused by two separate incidents of storm damage to two different beaches staircases.		To be reported to Accounting Officer and Disciplinary board Committee for further investigation.
The Auditor General concluded that the misallocation of costs on invoice 730INV0001929 by Mubesko Africa cc constitute irregular expenditure to the value of R 34 635.		To be reported to Accounting Officer and Disciplinary board Committee for further investigation.
53. Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure		
Opening balance	-	-
Fruitless and wasteful expenditure current year	223,702	-
Condoned or written off by Council	(23,000)	-
To be recovered - contingent asset	(200,702)	-
Fruitless and wasteful expenditure awaiting condonement	-	-

Detail on Fruitless and Wasteful expenditure for the 2018/19 financial year is as follows:

- Postal and cheques received but not yet encashed amounting to R23 000 found at the Municipal Court. This amount has been written off as irrecoverable.
- Payment of three multi-purpose trailers ("trailers") amounting to R135 300 (VAT including) two trailers were received. An amount of R20 302 was found to the Fruitless and Wasteful expenditure.
- Excess payments made for street cleaning services rendered for the period 1 July 2018 – 30 June 2019 to the amount of R180 400.

54. Additional disclosure in terms of the Municipal Finance Management Act (MFMA), (Act No. 56 of 2003)

Non-compliance with section 126 (1)(a) of the Municipal Finance Management Act

Non-compliance with section 126 (1)(a) of the Municipal Finance Management Act

In terms of section 126(1)(a) of the Municipal Finance Management Act, herein after referred to the MFMA, The accounting officer of a municipality must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing.

The annual financial statements for the financial year ended 30 June 2018, were not submitted to the auditor-general for auditing within the two months after the financial year end as prescribed in terms of section 126(1)(a) of the MFMA.

Non-compliance with section 71 (1) of the Municipal Finance Management Act

In terms of section 71 (1) of the MFMA, the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget.

For the month of August 2018 the municipality was unable to submit the Schedule C document in line with Sect 71 and the Municipal Budget and Reporting Regulations on 14 September 2018. The Municipality did however request official extension of this deadline from the MEC for Finance of Western Cape Province. The MEC approved such extension and the August Section 71 report was submitted to the Mayor and Provincial Treasury on 12 October 2018.

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	2019 R	2018 R
54. Additional disclosure in terms of the Municipal Finance Management Act (MFMA), (Act No. 56 of 2003) (continued)		
Contributions to SALGA		
Opening balance	-	-
Current year subscription / fee	2,876,094	2,620,819
Amount paid - current year	(2,876,094)	(2,620,819)
Amount paid - previous years	-	-
	-	-
Audit fees		
External audit fees		
Opening balance	-	-
Current year subscription / fee	4,818,279	4,247,093
Amount paid - current year	(4,818,279)	(4,247,093)
Amount paid - previous years	-	-
	-	-
Internal audit fees		
Current year fee	1,535,019	1,331,753
Amount paid - current year	(1,535,019)	(1,331,753)
	-	-
PAYE and UIF		
Opening balance	-	-
Current year subscription / fee	37,194,010	33,044,188
Amount paid - current year	(37,194,010)	(33,044,188)
Amount paid - previous years	-	-
	-	-
Pension, Provident and medical aid contributions, Group insurance		
Opening balance	-	-
Current year subscription / fee	85,158,755	79,100,280
Amount paid - current year	(85,158,755)	(79,100,280)
Amount paid - previous years	-	-
	-	-
VAT		
VAT (payable) / receivable	9,712,876	10,896,467

All VAT returns have been submitted by the due date throughout the year.

Mossel Bay Municipality
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	2019 R	2018 R
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54. Additional disclosure in terms of the Municipal Finance Management Act (MFMA), (Act No. 56 of 2003)
(continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2019:

30 June, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ME Furness	7,851	6,790	14,641
30 June, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ME Furness	2,427	193	2,620
A Dellemijn	868	69	937
	3,295	262	3,557

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June, 2019	Highest outstanding amount	Aging (in days)
ME Furness	6,790	90+ days
30 June, 2018	Highest outstanding amount	Aging (in days)
ME Furness	193	90+ days
A Dellemijn	69	90+ days
	262	180

Supply chain management regulations

Non-compliance with Chapter 11 of the MFMA

The following deviations and ratifications of minor breaches of procurement processes are reported to council in terms of Paragraph 36(2) of the SCM Policy:

Types of deviations

Sole Supplier	8,119,237	5,345,087
Emergency	830,177	5,613,394
Acquisition of special works of art or historical objects where specifications are difficult to compile.	3,752	935
Exceptional case and it is impractical or impossible to follow the official procurement process	31,292,185	23,157,049
	40,245,351	34,116,465

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			2019 R	2018 R
54. Additional disclosure in terms of the Municipal Finance Management Act (MFMA), (Act No. 56 of 2003)				
(continued)				
Awards above R 2 000 made to persons in service of the state and / or their close family members				
The following are awards above R 2 000 made to persons in service of the state and close family members of persons in the service of the state:				
Quotations				
Quotation	Awarded to		Amount	Relation
Awards to persons in service of State				
Financial Services	L J Bruwer		475,872	Was employed by Mossel Bay Municipality within the past 12 months.
Drivers license training for Officials	Gabriels General Trader (Pty) Ltd		78,610	The director of the company has been in the service of the state for the past 12 months.
Various medals and trophies	Bardin's Jewellers		5,887	M Furness - Council member of Mossel Bay Municipality
Festival events	Mossel Bay Tourism		19,507	The Municipal Manager and two councillors are board members of the Tourism council (Adv T Gilliomee, Ms V Fortuin and M Furness).
Awards to close family members of persons in service of state				
Computer training	Leanco Business Services		27,930	C Neethling the spouse of the owner is a councilor at George Municipality.
Replace paving	Autumn Skies Trading 257 CC t/a PK Builders		4,650	Children are employed at George Municipality (LMA Maksella) and SAPD Oudtshoorn (A Olkers).
Transport	Gouws N.E. Transport		67,090	Husband employed by Mossel Bay Municipality (MH Pongolo).
Various	Prima Parts		17,509	The owner is the mother of an employee of Mossel Bay Municipality (V Basson).
Various	Electronic Services		30,079	The son-in-law of one of the employees of Mossel Bay Municipality owns Electronic Services (E Stipp).
Various	Maverick Trading 1088 CC		36,743	His wife is employed by the Department of Agriculture.
Insurance portfolio	AON South Africa		11,068	Various relatives in service of the state.
Roofing	4K Bouers		10,500	The owner of the company has a relative in the Mossel Bay Municipality (H Ohlson).
Various	Brenda Cuhna Construction		42,100	The owner of the company has a relative in the Mossel Bay Municipality (H Ohlson).
Various	Kay Beez Development Projects CC		46,230	Spouse works at the Department of Health.
Various	iKapa Reticulation and Flow CC		181,469	One of the company's director's wife (S Davids) is in service of the state employed by WCED.
Blue Flag sea water analysis	Drs Dietrich Voigt Mia & Partners		39,718	C Maas-Loftus related to shareholder in service of the state.
Paint works	Ben-Oni Louis Construction		6,214	The owner's brother is an employee of Mossel Bay Municipality (P Myburgh).
Various	Volts and Welds		133,644	The owner is the cousin of an employee of Mossel Bay Municipality (P Myburgh).

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			2019 R	2018 R
54. Additional disclosure in terms of the Municipal Finance Management Act (MFMA), (Act No. 56 of 2003)				
(continued)				
Various	Signage Guys	3,736		The husband of the Director works for SAPS.
Various	SMEC	1,372,590		One of the director's spouse was in service of the state.
		2,611,146		

Tenders

Tender	Awarded to	Amount	Relation
Awards to persons in service of State			
SLA	Mossel Bay Tourism	3,489,242	The Municipal Manager and two councillors are board members of the Tourism council (Adv T Gilliomme, Ms V Fortuin and M Furness).

Awards to close family members of persons in service of state

34-18/19	Autumn Skies Trading 257 CC t/a PK Builders	69,560	Children are employed at George Municipality (LMA Maksella) and SAPD Oudtshoorn (A Olkers).
30-16/17	A2 Loodgieters	114,126	Spouse of the owner employed by the Department of Correctional Services.
46-16/17	A2 Loodgieters	37,092	Spouse of the owner employed by the Department of Correctional Services.
44-16/17	A2 Loodgieters	396,761	Spouse of the owner employed by the Department of Correctional Services.
15-16/17	A2 Loodgieters	102,632	Spouse of the owner employed by the Department of Correctional Services.
44-17/18	A2 Loodgieters	513,721	Spouse of the owner employed by the Department of Correctional Services.
45-17/18	A2 Loodgieters	1,528,619	Spouse of the owner employed by the Department of Correctional Services.
99-13/14	Aurecon South Africa George	5,639,518	Aurecon has numerous family members working for State Departments.
52-16/17	Aurecon South Africa George	129,407	Aurecon has numerous family members working for State Departments.
118-17/18	Aurecon South Africa George	21,200	Aurecon has numerous family members working for State Departments.
80-16/17	Gouws N.E. Transport	457,232	Husband employed by Mossel Bay Municipality (MH Pongolo).
34-18/19-1	Gouws N.E. Transport	22,495	Husband employed by Mossel Bay Municipality (MH Pongolo).
37-17/18	SMEC	354,176	One of the director's spouse was in service of the state.
52-16/17	SMEC	201,825	One of the director's spouse was in service of the state.
54-03/18	3rd Generation Trading	12,220	Spouse employed by PetroSA.
5-17/18	3rd Generation Trading	30,841	Spouse employed by PetroSA.
93-17/18	3rd Generation Trading	55,635	Spouse employed by PetroSA.
94-15/16	AON South Africa	3,040,639	Various relatives in service of the state.
52-16/17	BDE Consulting Engineers (Pty) Ltd	373,279	Father of one of the directors is in service of Oudtshoorn Municipality.
52-16/17	Gibb (Pty) Ltd	111,218	Has relatives in service of the state.

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			2019 R	2018 R
54. Additional disclosure in terms of the Municipal Finance Management Act (MFMA), (Act No. 56 of 2003)				
(continued)				
7-17/18	Swannie's Auto Clinic (AA Swannepoel t/a)	301,294		Owner has a family member in service of the SAPS.
34-18/19-1	Swannie's Auto Clinic (AA Swannepoel t/a)	28,752		Owner has a family member in service of the SAPS.
105-17/18	Emakozeni Trading Enterprises CC t/a Harvey World Travel	426,909		Spouse of Mr RS Zikode is employed at DTI Pretoria.
83-16/17	iKapa Reticulation and Flow CC	1,956,558		One of the company's director's wife (S Davids) is in service of the state employed by WCED.
118-17/18	NCC Environmental Services (Pty) Ltd	57,391		Spouse in service of state - City of Cape Town (C Rhoda).
52-18/19	Siphakame Skills Development	226,000		Direcot N Vacu's spouse (NS Vacu) is employed by Drakenstein Municipality.
52-16/17	Engineering Advice Services Western Cape (Pty) Ltd	983,433		Relative of two employees of Mossel Bay Municipality (S & E Westerberg).
			20,681,775	

The transactions are concluded in full compliance with the Supply Chain Management Policy of the Council and the transactions are considered to be at arms length.

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Notes to the Annual Financial Statements

	2019 R	2018 R
54. Additional disclosure in terms of the Municipal Finance Management Act (MFMA), (Act No. 56 of 2003) (continued)		
Levies paid to other government organisations		
Skills Development Fund Levy	2,372,010	2,185,097
Bargaining Council Levy	100,378	97,210
	2,472,388	2,282,307
Material losses		
Electricity distribution losses		
Units purchased (kWh)	312,588,276	305,969,140
Units lost during distribution (kWh)	27,305,174	21,742,419
Percentage lost during distribution	8.74 %	7.11 %
These losses are due to technical losses on the distribution system (transformers, cables, overhead lines), faulty meters, theft and vandalism.		
Water distribution losses		
Mega litres purified	7,643	7,485
Mega litres lost during distribution	873	762
Percentage lost during distribution	11.42 %	10.18 %
These losses are due to defective meters, losses on water network (breakage in pipelines and pumps, leaking valves, etc.), evaporation, theft, vandalism and damages due to blind excavations.		
55. Additional disclosure in terms of the Broad-Based Black Economic Empowerment Act		
Information on compliance with the Broad-Based Black Economic Empowerment Act (B-BBEE) is included in the Annual Report under the section titled Broad-Based Black Economic Empowerment Act Compliance Performance Information.		
56. Commitments		
Authorised capital expenditure		
Already approved and contracted for		
• Infrastructure	243,945,082	42,971,844
• Community	33,357,885	11,512,196
• Other	2,415,913	-
	279,718,880	54,484,040
Approved but not yet contracted		
• Infrastructure	-	-
• Community	-	-
• Other	-	-
	-	-
Total capital commitments will be financed from		
Borrowing	82,583,656	-
Capital replacement reserve	99,246,459	21,042,188
Government grants	97,745,589	33,441,852
Public contributions / donation	143,176	-
	279,718,880	54,484,040

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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57. Related parties

Parties are considered to be related if:

- One party has the ability to control the other party; or
- Exercise significant influence over the other party in making financial and operating decisions.

Related party transactions

Awards to persons in service of State

Mossel Bay Tourism	3,508,749	3,624,718
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The Municipal Manager and two councillors are board members of the Tourism Council (Adv Thys Gilliomee, Ms Venolea Fortuin and Mr Mark Furness).

Year ended 30 June 2019	Rates and service charges	Outstanding balances
Councillors	435,060	47,614
Municipal Manager and Section 57 Personnel	104,725	3,397
Municipal entities	-	-
Year ended 30 June 2018		
Councillors	388,974	20,842
Municipal Manager and Section 57 Personnel	81,043	138
Municipal entities	-	-

The rates, service charges and other charges are in accordance with approved tariffs that was advertised to the public. No bad debt expenses had been recognised in respect of amounts owed by related parties.

The transactions are concluded in full compliance with the Supply Chain Management policy of the Council and the transactions are considered to be at arms length.

Joint Venture - Jointly controlled asset

Mossel Bay Municipality has an agreement with PetroSA for the funding and construction of a jointly-owned 15 Mega litres per day Seawater Desalination facility.

The Municipality accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Title and ownership of the Desalination facility shall vest in the Municipality and PetroSA proportional to their respective funding contributions.

Related Party Loans

Loans to Councillors and senior management employees are no longer permitted since 1 July 2004.

Compensation of key management personnel

The compensation of key management personnel is set out in Notes 35 and 36.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June, 2019
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	2019 R	2018 R
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58. Contingencies

Contractual disputes

Below is a list of possible liability claims where the outcome was unknown at 30 June 2019 with the maximum unforeseen liability for the Municipality:

	2019	2018
Allandale and Others v Mossel Bay Municipality: claim for flood damages.	16,516,054	16,516,054
Stonetrade Trust v Mossel Bay Municipality: claim with regard to Mid-Income housing.	64,220,976	64,220,976
Belstow Technologies v Mossel Bay Municipality: claim for the cancellation of the contract for Traffic cameras.	6,679,588	6,679,588
Attpower (Pty) Ltd v Mossel Bay Municipality: claim based on the so-called breach of contract.	83,849,227	83,849,227
Delict JF van Niekerk and Other v Mossel Bay Municipality: letter of demand was received from 53 registered owners in the Municipal Jurisdiction who were affected by the landslide in the Seemeeu Park residential area.	125,000,000	125,000,000
A summons was received for a public liability claim which should not be settled with the insurance brokers. Damages due to injuries is claimed.	1,338,746	1,338,746
Sala Pension fund Claim - outstanding employer contributions	2,955,689	-
	300,560,280	297,604,591

Guarantees of employees housing loans

Guarantees have been issued to various financial institutions on behalf of officials in respect of housing loans.

This is covered by individual cumulated pensions depending on the years of service. Collateral investments were made in certain cases.

Note: Council has received the funds on one of the guarantees, but are awaiting confirmation of cancellation of the guarantee.

	2019	2018
The maximum amount of the guarantees to which council has a right to recovery.	24,285	24,285

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Annual Financial Statements for the year ended 30 June, 2019
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	2019 R	2018 R
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58. Contingencies (continued)

Other contingent liabilities

There is currently four disputes under arbitration and conciliations between the municipality and employees. There is also one labour court matter. The outcome, timing and amounts of one of these cases are not available. An amount of R199 368 is estimated for the other three employee claims, but the outcome and timing is not available.

Garden Route District Municipality and Mossel Bay Municipality reached an agreement for the transfer of Erf 12406 Mossel Bay (±1 188m²) from Mossel Bay Municipality to Garden Route District Municipality as it is utilised by Garden Route District Municipality Health Services as offices.

The Garden Route District Municipality will be responsible for all costs related to the transfer of Erf 12406 Mossel Bay.

Council approved the transfer of Erf 6271 (a portion of Erf 4940) Hartenbos with an additional 2m, resulting in a further 84m² of the property to Provincial Department of Transport and Public Works which they will use for the extension of the southern boundary line of the Hartenbos Clinic.

The Provincial Department of Transport and Public Works be responsible for all surveying, subdivision and registration costs.

Council approved the release and alienation of twenty seven erven situated in Tarka as well as 9 erven situated on a portion of Erf 2003, Extension 6, Mossel Bay to the claimant households at fifty percent of the market related purchase price of R3 948 800, since it is not required for basic municipal purposes, in settlement of the Tarka Community Land claim

Contingent assets

The Municipality is currently in a dispute with Eden District Municipality regarding ownership of Erven 264 and 271, Reebok. If Mossel Bay Municipality succeeds in the dispute it will lead to the properties being added to their asset register.

The municipality is currently investigating possible fraudulent activities. The outcome of this investigation will determine whether there is irregular expenditure.

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	2019 R	2018 R
59. Financial instruments disclosure		
Categories of financial instruments at amortised cost		
FINANCIAL ASSETS		
Investments		
Long-term investments	48,000,000	36,000,000
Long-term deposits: Other bodies	77,771	3,484,725
Less: Payment to other bodies	(77,771)	(3,484,725)
Short-term investments		
Standard Bank	232,099,635	209,016,485
Nedbank	225,866,812	202,882,926
Short-term investment deposits		
Short-term investment deposits	5,015,719	5,003,562
Cash and Cash Equivalents		
Bank balances	1,081,468	9,326,904
Cash on hand	23,460	19,060
Long-term receivables		
Land Sales Debtors	10,297	7,290
Bursary Obligations	224,747	189,631
Public Assistance Loans	-	5,909
Housing Selling Schemes	717,705	629,191
Receivables from exchange transactions		
Electricity	41,790,060	34,684,946
Water	17,078,505	20,828,944
Sewerage	6,751,120	4,374,088
Refuse	5,541,250	3,432,836
Land sales	230	754
Housing selling schemes	14,716	11,625
Housing rental	12,613	6,769
Other (Merchandising, Jobbing, Contracts and Service charges)	16,104,917	8,859,943
Other receivables from non-exchange transactions		
Government grants and subsidies	128,834	128,834
Other	1,404,139	1,251,841
Recoverable expenditure	75,644	75,644
	601,941,871	536,737,182
FINANCIAL LIABILITIES		
Other Financial liabilities		
Long term loan	30,830,781	33,842,799
Local registered stock loans	-	44,572
Lease liability		
Finance lease obligation	5,933	18,877
Payables from exchange transactions		
Trade payables	101,281,849	66,927,421
Accrued Expenditure	67,715	80,321
Retentions	10,762,668	10,401,799
Other payables	6,059,130	3,290,179
Other deposits	4,770,675	4,232,337

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Notes to the Annual Financial Statements

	2019 R	2018 R
59. Financial instruments disclosure (continued)		
Consumer deposits		
Electricity	15,306,686	14,691,910
Water	11,979,869	10,932,315
Non-current deposits		
Santos Pavillion Repair Fund	299,151	286,755
Employee benefits obligations		
Performance bonus accrual	941,980	956,856
Staff leave accrual	14,166,854	14,691,330
Bonus accrual	6,924,683	5,157,635
Employee Overtime / Standby allowance accrual	1,373,691	1,090,860
Long Service awards	17,150,533	16,572,000
Unspent conditional grants and receipts		
Unspent conditional grants and receipts	23,134,492	36,772,905
Cash and cash equivalents		
Bank overdraft	-	-
	245,056,690	219,990,871

Comparatives have been restated due to correction of prior period errors. Refer to Note 46.

Methods and assumptions are used to determine the fair value / amortised cost of each class of financial instrument

Cash and Cash Equivalents: The carrying amount approximates the fair value due to the relatively short-term nature of these financial assets.

Trade and Other receivables / payables: The carrying amount of trade and other receivables (net of provision for debt impairment) / payables approximates fair value due to the relatively short-term nature of these assets / liabilities.

Long-term Receivables / payables: Subsequent to initial recognition, interest bearing borrowings and receivables are stated at amortised cost. Fixed interest rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market-related interest rates at the reporting date.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows reasonable expected change in the interest rate, either an increase or decrease in the interest percentage. The equal but opposite % adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below.

As the entity does not have any instruments that effect net assets directly, the disclosure only indicates the effect of the change in interest rates on surplus. There were no changes in the methods and assumptions used in preparing the sensitivity analysis from one year to the next.

Adjustment in interest rates: The effect of a 1% increase / decrease in interest rate would have the following effect:

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Notes to the Annual Financial Statements

				2019 R	2018 R
59. Financial instruments disclosure (continued)					
2019					
Net effect of interest-bearing instruments on surplus	Balance	Interest income	Interest expense	Effective interest rate	Effect of a 1% adjustment in interest rate
Financial assets					
Cash and cash equivalents	6,120,647	510,366	-	4.99 %	102,351
Receivables from exchange transactions	87,293,410	1,733,438	-	2.17 %	797,467
Receivables from non-exchange transactions	1,608,617	-	-	- %	-
Short-term investments	457,966,447	38,187,224	-	8.78 %	4,349,329
Investments	48,000,000	4,002,448	-	9.53 %	420,000
Long-term receivables	952,749	18,919	-	2.12 %	8,924
Financial liabilities					
Trade and other payables from exchange transactions	101,281,849	-	-	- %	-
Non-current deposits	299,151	-	12,396	4.23 %	(2,930)
Consumer deposits	-	-	-	- %	-
Unspent conditional grants and receipts	23,134,491	-	-	- %	-
Other financial liabilities	30,830,781	-	3,253,533	10.05 %	(323,591)
Finance lease obligation	5,933	-	841	6.78 %	(124)
Subtotal					5,351,426
2018					
Net effect of interest-bearing instruments on surplus	Balance	Interest income	Interest expense	Effective interest rate	Effect of a 1% adjustment in interest rate
Financial assets					
Cash and cash equivalents	14,349,526	1,198,342	-	3.64 %	329,414
Receivables from exchange transactions	72,199,906	1,669,754	-	2.56 %	652,753
Receivables from non-exchange transactions	1,456,318	-	-	- %	-
Short-term investments	411,899,411	34,398,094	-	8.85 %	3,888,543
Investments	36,000,000	3,006,393	-	10.02 %	300,000
Long-term investments	832,020	19,242	-	1.94 %	9,912
Financial liabilities					
Trade and other payables from exchange transactions	66,927,421	-	-	- %	-
Non-current deposits	286,755	-	12,214	4.35 %	(2,806)
Consumer deposits	-	-	-	- %	-
Unspent conditional grants and receipts	36,772,906	-	-	- %	-
Other financial liabilities	33,887,371	-	3,119,528	9.60 %	(324,936)
Finance lease obligation	18,876	-	11,557	8.77 %	(1,317)

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Annual Financial Statements for the year ended 30 June, 2019
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	2019 R	2018 R
59. Financial instruments disclosure (continued)		4,851,563

60. Risk management

Financial risk management

Credit risk is defined as the risk that one party to a financial instrument will fail to honour their obligation, thus causing the other party to incur a financial loss.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. This comprises three types of risks, which is currency risk, interest rate risk and other prices risk.

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest rate changes.

Potential concentrations of credit risk and interest rate risk consist mainly of fixed deposit investments, long term debtors, consumer debtors, other debtors, short term investment deposits and bank and cash balances.

The Municipality limits its counterparty exposures from its money market investment operations by only dealing with well established financial institutions of high quality credit standing. The credit exposure to any single counterparty is managed by setting transaction/exposure limits, which are included in the Municipality's investment policy. These limits are reviewed annually by the CFO and authorised by Council.

Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due date are put on auxiliary.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market).

Liquidity risk is the risk that the Municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The financial liabilities of the Municipality are backed by appropriate assets and it has adequate liquid resources. Council has an approved Long-term financial plan which brought policies and procedures in place to monitor the cash projections and by ensuring that borrowing facilities are available to meet its cash requirements.

Exposure to financial risks

Financial assets exposed to credit risk at year end were as follows:

Maximum Credit Risk of Financial instrument

Long term receivables	952,749	832,021
Receivables from exchange transactions	87,293,411	72,199,905
Receivables from non-exchange transactions	1,608,617	1,456,319
Investments	48,000,000	36,000,000
Short-term investments	457,966,447	411,899,411
Cash and cash equivalents	6,120,647	14,349,526
Maximum Credit Risk Exposure	601,941,871	536,737,182

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Annual Financial Statements for the year ended 30 June, 2019
Notes to the Annual Financial Statements

	2019 R	2018 R
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61. Events after the reporting date

Mossel Bay Municipality has gone through a process of restructuring and revising all job descriptions. The new organogram is effective from 1 July 2019. The restructuring process will have no financial effect budget certain functions has shifted between Directorates.

Mossel Bay Municipality
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Supplementary Information

1. Segmental Statement of Financial Performance: GFS Classification

2019

Segment	Actual income\	Actual expenditure	Surplus / (deficit)
Community & Social Services	15,768,013	(23,672,096)	(7,904,083)
Corporate and administration services	184,679,560	(126,388,248)	58,291,312
Electricity	428,850,728	(346,648,434)	82,202,294
Environmental Protection	76,874	(6,862,274)	(6,785,400)
Executive & Council	14,934,421	(49,916,233)	(34,981,812)
Housing	23,127,631	(28,226,964)	(5,099,333)
Other	125,758	(5,299,950)	(5,174,192)
Planning & Development	11,882,435	(23,447,681)	(11,565,246)
Public Safety	1,106,420	(31,005,677)	(29,899,257)
Road Transport	43,691,212	(93,498,942)	(49,807,730)
Sport and Recreation	7,774,553	(46,661,040)	(38,886,487)
Water	146,703,035	(72,799,841)	73,903,194
Waste Management	77,066,303	(50,232,881)	26,833,422
Waste Water Management	97,808,361	(65,619,084)	32,189,277
	1,053,595,304	(970,279,345)	83,315,959

2018

Segment	Actual Income	Actual expenditure	Surplus / (deficit)
Community & Social Services	9,714,762	(21,828,454)	(12,113,692)
Corporate and administration services	165,393,954	(114,287,546)	51,106,408
Electricity	394,769,709	(317,177,221)	77,592,488
Environmental Protection	-	(5,536,584)	(5,536,584)
Executive & Council	22,239,996	(47,479,839)	(25,239,843)
Housing	38,237,795	(16,637,469)	21,600,326
Other	106,539	(5,038,662)	(4,932,123)
Planning & Development	11,225,989	(20,695,308)	(9,469,319)
Public Safety	1,507,358	(27,760,618)	(26,253,260)
Road Transport	29,641,728	(87,003,516)	(57,361,788)
Sport and Recreation	9,652,218	(41,339,434)	(31,687,216)
Water	146,277,285	(67,997,924)	78,279,361
Waste Management	64,066,337	(45,240,419)	18,825,918
Waste Water Management	88,940,014	(62,688,184)	26,251,830
	981,773,684	(880,711,178)	101,062,506

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Supplementary Information

2. Segmental Statement of Financial Performance: Municipal Department Classification

	Actual Income	Actual Expenditure	Surplus / (deficit)
2019			
Corporate Services	8,438,491	(82,812,742)	(74,374,251)
Community Services	116,697,663	(193,911,740)	(77,214,077)
Technical & Electrical Services	672,440,386	(473,550,639)	198,889,747
Financial Services	173,988,062	(47,803,850)	126,184,212
Municipal Manager & Executive Council	20,886,105	(48,561,512)	(27,675,407)
Planning & Integrated Services	61,144,597	(123,638,862)	(62,494,265)
	1,053,595,304	(970,279,345)	83,315,959
	Actual Income	Actual Expenditure	Surplus / (deficit)
2018			
Corporate Services	3,440,479	(73,015,065)	(69,574,586)
Community Services	104,567,602	(177,196,479)	(72,628,877)
Technical & Electrical Services	625,418,260	(436,303,092)	189,115,168
Financial Services	156,785,201	(47,644,701)	109,140,500
Municipal Manager & Executive Council	22,905,628	(37,622,735)	(14,717,107)
Planning & Integrated Services	68,656,514	(108,929,106)	(40,272,592)
	981,773,684	(880,711,178)	101,062,506

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2019

APPENDIX A

SCHEDULE OF EXTERNAL LOANS AS AT 30 June 2019										
External loans	Institution	Loan number	Redeemable	Balance at 30 June 2018	Received during the period	Redeemed / written off during the period	Unamortised discount on loans	Balance at 30 June 2019	Carrying value of PPE	Other costs in accordance with the MFMA
STOCK LOANS				R	R	R		R	R	R
Stock loan @ 12.00%	Boggomsbaai Golf club	2/2003/04	2018/10/30	30 714		30 714		-	-	-
Stock loan @ 12.00%	Hartenbos Tennisklub	1/2003/04	2018/09/18	13 857		13 857		-	-	-
Total stock loans				44 571	-	44 571	-	-	-	-
LONG-TERM LOANS										
DBSA loan R30m	Development Bank of South Africa	1/2012/02	2027/06/30	18 000 000		2 000 000		16 000 000	-	-
ABSA loan R4.8m	ABSA Bank	03-8723-1321	2026/07/01	4 153 247		375 863		3 777 384		
ABSA loan R6.5m	ABSA Bank	03-8723-1322	2027/07/01	6 089 552		456 414		5 633 138		
Nedbank loan R5.6m	Nedbank	057831035273/000001	2028/07/01	5 600 000		179 741		5 420 259		
Total long-term loans				33 842 799	-	3 012 019	-	30 830 780	-	-
TOTAL EXTERNAL LOANS				33 887 370	-	3 056 590	-	30 830 780	-	-

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APPENDIX B

APPROPRIATION STATEMENT AS AT 30 June 2019

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2019											
FINANCIAL PERFORMANCE											
Revenue											
Property rates	117,328,893	3,431,043	120,759,936		-	120,759,936	122,525,709		1,765,773	101%	104%
Service charges	642,853,666	-3,763,280	639,090,386		-	639,090,386	639,133,910		43,524	100%	99%
Rental of facilities and equipment	5,399,954	669,110	6,069,064		-	6,069,064	5,654,886		-414,178	93%	105%
Interest earned - outstanding debtors	1,878,998	86,502	1,965,500		-	1,965,500	1,784,300		-181,200	91%	95%
Interest earned - external investments	37,500,000	-4,332,415	33,167,585		-	33,167,585	42,700,038		9,532,453	129%	114%
Dividends received	-	-	-		-	-	-		-	#DIV/0!	#DIV/0!
Fines, penalties and forfeits	4,939,240	10,965,412	15,904,652		-	15,904,652	15,915,369		10,717	100%	322%
Licences and permits	1,132,624	36,666	1,169,290		-	1,169,290	1,332,246		162,956	114%	118%
Agency services	6,000,000	-361,370	5,638,630		-	5,638,630	6,781,280		1,142,650	120%	113%
Transfers recognised - operational	119,891,574	17,643,126	137,534,700		-	137,534,700	115,010,763		-22,523,937	84%	96%
Other own revenue	25,081,087	5,830,537	30,911,624		-	30,911,624	34,147,049		3,235,425	110%	136%
Gains on disposal of PPE	879,432	834,427	1,713,859		-	1,713,859	2,832,008		1,118,149	165%	322%
Total revenue (excluding capital transfers and contributions)	962,885,468	31,039,758	993,925,226	-	-	993,925,226	987,817,559	-	-6,107,667	99%	103%
Expenditure											
Employee related costs	291,147,241	-1,497,589	289,649,652		-	289,649,652	299,014,418		9,364,766	103%	103%
Remuneration of councillors	11,927,802	-444,462	11,483,340		-	11,483,340	11,483,339		-1	100%	96%
Debt impairment	18,721,500	15,148,700	33,870,200		-	33,870,200	14,602,655		-19,267,545	43%	78%
Depreciation & asset impairment	78,303,716	-737,912	77,565,804		-	77,565,804	76,221,221		-1,344,583	98%	97%
Finance charges	4,992,476	4,865,175	9,857,651		-	9,857,651	6,785,049		-3,072,602	69%	136%
Bulk purchases	285,789,123	-1,955,342	283,833,781		-	283,833,781	292,284,877		8,451,096	103%	102%
Other materials	81,813,226	904,388	82,717,614		-	82,717,614	90,668,400		7,950,786	110%	111%
Contracted services	145,910,164	20,926,735	166,836,899		-	166,836,899	115,412,733		-51,424,166	69%	79%
Transfers and subsidies	5,815,722	296,728	6,112,450		-	6,112,450	6,085,012		-27,438	100%	105%
Other expenditure	57,431,944	3,012,735	60,444,679		-	60,444,679	57,721,630		-2,723,049	95%	101%
Loss on disposal of PPE	1,454,345	11,941,247	13,395,592		-	13,395,592	1,609,597		-11,785,995	12%	111%
Total expenditure	983,307,259	52,460,403	1,035,767,662	-	-	1,035,767,662	971,888,931	-	-63,878,731	94%	99%
Operating Surplus/(Deficit)	-20,421,791	-21,420,645	-41,842,436	-	-	-41,842,436	15,928,628	-	57,771,064	-38%	-78%
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	51,938,000	18,798,994	70,736,994		-	70,736,994	46,859,344		-23,877,650	66%	90%
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	-	-	-		-	-	-		-	#DIV/0!	#DIV/0!
Transfers and subsidies - capital (in-kind - all)	-	-	-		-	-	20,527,987		20,527,987	#DIV/0!	#DIV/0!
Surplus/(Deficit) after capital transfers & contributions	31,516,209	-2,621,651	28,894,558	-	-	28,894,558	83,315,959	-	54,421,401	288%	264%
Taxation	-	-	-		-	-	-		-	#DIV/0!	#DIV/0!
Surplus/(Deficit) for the year	31,516,209	-2,621,651	28,894,558	-	-	28,894,558	83,315,959	-	54,421,401	288%	264%
CAPITAL EXPENDITURE AND FUNDS SOURCES											
Total capital expenditure	181,754,934	23,993,114	205,748,048		-	205,748,046	167,113,360		-38,634,686	81%	92%
CASH FLOWS											
Net cash from / (used) in operating activities	154,793,849	15,297,051	170,090,900		-	170,090,900	198,104,334		28,013,434	116%	128%
Net cash from / (used) in investing activities	-186,355,706	-26,592,342	-212,948,048		-	-212,948,048	-201,719,853		11,228,195	95%	108%
Net cash from / (used) in financing activities	35,123,670	-14,506,459	20,617,211		-	20,617,211	-4,613,360		-25,230,571	-22%	-13%
Net increase / (decrease) in cash and cash equivalents	3,561,813	-25,801,750	-22,239,937	-	-	-22,239,937	-8,228,879	-	14,011,058	37%	-231%
Cash and cash equivalents at the beginning of the year	358,908,254	67,340,683	426,248,937		-	426,248,937	14,349,526		-411,899,411	3%	4%
Cash and cash equivalents at year end	362,470,067	41,538,934	404,009,000	-	-	404,009,000	6,120,647	-	-397,888,354	2%	2%

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2019

APPENDIX B

APPROPRIATION STATEMENT AS AT 30 June 2019

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2018											
FINANCIAL PERFORMANCE											
Revenue											
Property rates	108,476,248	304,998	108,781,246		-	108,781,246	110,972,997		2,191,751	102%	102%
Service charges	589,224,156	4,330,409	593,554,565		-	593,554,565	602,010,355		8,455,791	101%	102%
Rental of facilities and equipment	5,119,401	88,866	5,208,267		-	5,208,267	5,078,997		-129,270	98%	99%
Interest earned - external investments	2,258,030	-467,783	1,790,247		-	1,790,247	1,722,677		-67,570	96%	76%
Interest earned - outstanding debtors	32,700,000	4,558,867	37,258,867		-	37,258,867	38,602,829		1,343,962	104%	118%
Dividends received	-	-	-		-	-	-		-	#DIV/0!	#DIV/0!
Fines, penalties and forfeits	37,228,549	-32,511,191	4,717,358		-	4,717,358	13,659,388		8,942,031	290%	37%
Licences and permits	1,076,124	154,524	1,230,648		-	1,230,648	1,300,402		69,754	106%	121%
Agency services	5,016,113	734,895	5,751,008		-	5,751,008	6,052,555		301,547	105%	121%
Transfers recognised - operational	117,582,830	26,740,559	144,323,389		-	144,323,389	126,166,527		-18,156,862	87%	107%
Other own revenue	18,956,566	7,559,528	26,516,094		-	26,516,094	35,814,781		9,298,687	135%	189%
Gains on disposal of PPE	-	837,556	837,556		-	837,556	-		-837,556	0%	#DIV/0!
Total revenue (excluding capital transfers and contributions)	917,638,016	12,331,227	929,969,243	-	-	929,969,243	941,381,509		11,412,266	101%	103%
Expenditure											
Employee related costs	280,019,828	-4,887,085	275,132,744		-	275,132,744	264,536,461		-10,596,282	96%	94%
Remuneration of councillors	11,078,469	-137,151	10,941,318		-	10,941,318	10,941,298		-20	100%	99%
Debt impairment	31,500,190	-69,288,240	-37,788,050		-	-37,788,050	17,453,643		55,241,693	-46%	55%
Depreciation & asset impairment	72,992,708	2,082,887	75,075,595		-	75,075,595	69,645,460		-5,430,135	93%	95%
Finance charges	3,395,548	77,695	3,473,243		-	3,473,243	11,060,147		7,586,905	318%	326%
Bulk purchases	269,678,873	-3,382,635	266,296,238		-	266,296,238	267,744,119		1,447,880	101%	99%
Other materials	78,148,716	-18,784,060	59,364,656		-	59,364,656	76,814,273		17,449,617	129%	98%
Contracted services	105,842,367	56,736,211	162,578,578		-	162,578,578	97,386,324		-65,192,254	60%	92%
Transfers and subsidies	4,329,810	564,890	4,894,700		-	4,894,700	4,282,136		-612,564	87%	99%
Other expenditure	67,146,952	52,616,411	119,763,363		-	119,763,363	59,673,096		-60,090,267	50%	89%
Loss on disposal of PPE	973,400	411,690	1,385,090		-	1,385,090	1,174,220		-210,870	85%	121%
Total expenditure	925,106,863	16,010,612	941,117,475	-	-	941,117,475	880,711,177	-	-60,406,298	94%	95%
Operating Surplus/(Deficit)	-7,468,847	-3,679,385	-11,148,232	-	-	-11,148,232	60,670,332	-	71,818,563	-544%	-812%
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	33,464,000	16,556,516	50,020,516		-	50,020,516	37,910,304		-12,110,212	76%	113%
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	-	-	-		-	-	-		-	#DIV/0!	#DIV/0!
Transfers and subsidies - capital (in-kind - all)	-	1,433,316	1,433,316		-	1,433,316	2,481,870		1,048,554	173%	#DIV/0!
Surplus/(Deficit) after capital transfers & contributions	25,995,153	14,310,447	40,305,601	-	-	40,305,601	101,062,506		60,756,905	251%	389%
Taxation	-	-	-		-	-	-		-	#DIV/0!	#DIV/0!
Surplus/(Deficit) for the year	25,995,153	14,310,447	40,305,601	-	-	40,305,601	101,062,506		60,756,905	251%	389%
CAPITAL EXPENDITURE AND FUNDS SOURCES											
Total capital expenditure	126,284,585	26,709,948	152,994,533		-	152,994,533	137,671,625		-15,322,908	90%	109%
CASH FLOWS											
Net cash from / (used) in operating activities	104,086,612	-6,818,990	97,267,622		-	97,267,622	152,215,184		54,947,562	156%	146%
Net cash from / (used) in investing activities	-137,230,585	-21,530,631	-158,761,216		-	-158,761,216	-191,213,289		-32,452,073	120%	139%
Net cash from / (used) in financing activities	2,387,371	-2,511,381	-124,010		-	-124,010	1,814,404		1,938,414	-1463%	76%
Net increase / (decrease) in cash and cash equivalents	-30,756,602	-30,861,003	-61,617,605	-	-	-61,617,605	-37,183,701	-	24,433,904	60%	121%
Cash and cash equivalents at the beginning of the year	326,038,022	91,304,434	417,342,456		-	417,342,456	51,533,227		-365,809,228	12%	16%
Cash and cash equivalents at year end	295,281,420	60,443,431	355,724,851	-	-	355,724,851	14,349,526	-	-341,375,324	4%	5%